
REPORT

HOUSING OPTIONS AND SOLUTIONS FOR YOUNG PEOPLE IN 2020

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Recent economic, social and political change has resulted in a lot of uncertainty regarding the housing options for young people in the UK. This report aims to inform the development of housing policy and practice by identifying the key challenges likely to face young people who will be aged 18–30 in 2020.

The report explores:

- the key drivers shaping the housing experiences of young people;
- the impacts of key drivers of change on young people's housing pathways;
- the challenges young people will face in the housing market in 2020; and
- policy responses to the housing challenges likely to face young people in 2020.

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EXECUTIVE SUMMARY

Recent economic, social and political change has generated greater uncertainty in the housing options of young people. The recession has also highlighted challenges such as the lack of available credit and high youth unemployment.

This report explores what the housing situation might be like for young people who will be aged between 18 and 30 in 2020. The key findings are as follows:

- Around 1.5 million more young people aged 18–30 will be pushed towards living in the Private Rented Sector in 2020, reflecting the growing problems of accessing both home ownership and social renting.
- Without a sustained and long-term increase in new housing supply, demand side initiatives to bridge the deposit gap for aspiring homeowners risk maintaining the inflated house prices they are meant to overcome.
- Three groups of young people are increasingly marginalised in the UK housing system: young families, those on low incomes and those who are vulnerable due to their support needs; the push of these groups towards private rented housing requires a renewed focus on improving the supply, quality and stability of housing in both the private and social rented sectors.
- More stable private rented tenancies might be achieved through improved incentives for landlords; international evidence suggests that these could include tax breaks in return for more stable, longer-term tenancies for vulnerable or lower-income tenants and/or other benefits such as lower rent levels.
- Social landlords could help to reduce the challenges facing young people by helping them to access private rented tenancies and offering more shared tenancy options at local housing allowance rent levels as part of a varied housing offer.
- Without fundamental reform to the housing system to create suitable options, marginalisation of young people will continue to increase in a poorly functioning system.

The research was conducted in three stages. At **stage one** 50 young people and 50 key stakeholders were interviewed and a literature review was undertaken in order to determine the likely trajectories of the key drivers that will shape young people's housing experiences in the years up to 2020. **Stage two** of the research sought to identify different groups of young people and project their likely housing scenarios in 2020 based upon the influence of drivers identified at stage one. This complex element of the research involved cluster analysis of British Household Panel Survey data as well as interviews with young people. For each group of young people identified, we produced an estimate of the population size in 2008 and 2020. These estimates were calculated using tenure data for 18–30 year olds from the Labour Force Survey and our own trend-based projections for tenure in 2020. These projections were again corroborated against the qualitative interview data. At **stage three**, the key findings were presented to 71 additional young people and 52 additional stakeholders, who then put forward responses to the emerging challenges.

The position of young people in the 2020 housing market in the UK

It is anticipated that the total number of young people owning their own properties in 2020 will **decrease by approximately 1.1 million to 1.3 million** in 2020. The number of young people living with parents in owner-occupied accommodation will **increase by approximately 550,000 to 3.7 million** in 2020.

The total number of young people living in their own Private Rented Sector (PRS) tenancies in 2020 is predicted to **increase by approximately 1.3 million to 3.7 million**. It is likely that a three-tier model of demand will emerge based upon the median incomes of the young households. The number of young people living with parents in private rented accommodation will **increase by approximately 170,000 to 400,000** in 2020.

The total number of young people living in their own social rented tenancies in 2020 is predicted to **decrease by approximately 360,000 to 780,000**, when compared to 2008. The number of young people living with parents in social rented accommodation is predicted to **increase by approximately 170,000 to 870,000**.

The number of young people aged 18–24 following a *chaotic* housing pathway (including homelessness) will **increase from 75,000 to 81,000** between 2008 and 2020.

Young people's housing pathways to 2020: challenging times

Young people's housing experiences are already significantly different to those described in earlier studies. The predictions in this study show that experiences are likely to change even further as we approach 2020.

Home ownership

In 2008 young people generally entered home ownership by following one of four pathways. Most (2.9 million young people) remained in the family

home throughout their twenties and into their early thirties in order to save the capital to pay the deposit on a mortgage (*stay at home to owners*). Approximately 560,000 young people left the parental home and entered shared accommodation in the PRS before forming a couple and entering owner-occupation (*dual income, no kids owners – DINKOs*). The two remaining pathways into home ownership involved family formation before the age of 30. The key difference between these two family formation pathways is that the 330,000 *early nesters* generally left the family home and formed a family far earlier than the 720,000 *two parent families*. A proportion of other pathways followed by young people also ended in home ownership (810,000 young people) or the owner-occupied parental home (250,000 young people).

In 2020 young people are likely to stay at home for longer, and parents will play an increasingly important role in facilitating access to owner-occupation. Young people who choose not to remain at home will enter and remain in the Private Rented Sector into their 30s. Notably, more young families will be forced to live in the PRS despite their concerns about the lack of security and stability that comes with it.

Private renting

In 2008 one main pathway into private renting emerged. Approximately one million *young professional renters* left the parental home and entered the Private Rented Sector where they remained for some considerable time. Most of these young people had attained qualifications higher than A-level standard and they shared accommodation. Notably, a significant minority of young people following all pathways dominated by other tenures also became private renters (1.4 million young people), hence the total number of private renters in 2008 was much greater than the total number of *young professional renters*. Young people will continue to follow this pathway in 2020 with relatively unchanged circumstances. One difference anticipated in 2020 is a reduction in the number of students living in the PRS. However, the most significant change is likely to be increased competition for PRS accommodation from young people unable to access home ownership and unable to secure accommodation in the social rented sector. There will also be an increase in demand from young people following a *chaotic housing pathway*.

Social renting

In 2008 the most frequently followed pathway into social housing was to wait *in the social queue* (640,000 young people). These young people tended to stay in the social rented family home until they were able to access their own social rented tenancy, mostly as individuals. A second pathway into social housing was that taken by *lone parents*, where 380,000 young women left the family home and entered social housing soon after or immediately before having a child. A third pathway into social renting was followed by 380,000 young people as *social renting families*. These families have very similar experiences to *lone parents*, but the significant difference is that they form couples and enter their own social rented tenancy as they start their families. Finally, a proportion of other pathways followed by young people also ended in social rented accommodation (380,000) or the social rented parental home (60,000).

In 2020 competition for the limited supply of social housing will worsen. Consequently, more young people will stay at home for longer, while others will be forced live in the PRS – often in lower-end accommodation as a result of their relatively low incomes. There may be a risk of young people becoming deliberately homeless in order to secure a social rented home.

Chaotic housing pathway

In addition to the tenure-based housing pathways described above, there is the *chaotic* pathway of some 75,000 16–24 year olds who are likely to have been homeless in 2008. They will most probably have spent time in both the private and social rented sectors. We predict that approximately 81,000 18–24 year olds will follow this pathway in 2020 and, like many other young people, they are increasingly likely to be accommodated in the Private Rented Sector, where they will only be able to afford lower-end accommodation. These vulnerable young people will face difficulties in maintaining their tenancies as a result of reduced funding for housing-related support services.

Responding to the housing challenges facing young people

The challenges facing young people by 2020 will require fundamental changes to the UK housing system. Stakeholders argue that young people are particularly vulnerable in a badly functioning housing system due to their lack of resources and opportunities.

The UK housing system

The study's findings bring into sharp relief the relationship between low housing supply and high housing costs. Both stakeholders and young people recognise that specific initiatives to enable young people to access home ownership, such as shared equity schemes, could exacerbate the affordability problems they were created to address. While such policies may help some young people in the short term, without a sustained increase in housing supply they will not address the issue of affordability in the long term.

The consequences of failing to improve housing supply by 2020 go far beyond a frustrated group of aspiring young homeowners. There will be vast competition for PRS housing that leaves many lower-income and vulnerable households marginalised in the Private Rented Sector. Moreover, many more young families with a need for stable housing will be living in the PRS.

Improving the Private Rented Sector

For many young people, renting privately offers key benefits and opportunities that are not so apparent in other tenures. These include the flexibility of short-term tenancies and access to particular locations. Nevertheless, the sector was viewed by some young people as unaffordable, unavailable and offering poor conditions. There is a clear case for reform of the sector.

Stakeholders felt that strong political leadership is needed to create the momentum for change within the sector. This needs to include a change in the way the sector is viewed by politicians and young people themselves. While other studies suggest that there may be scope for including earlier housing education to achieve at least part of this goal, the two most pressing issues raised by stakeholders were (1) creating sufficient supply and (2) achieving a stable PRS market.

Creating sufficient supply

Institutional (or private) investment and tax advantages were raised as key mechanisms with the potential to increase the supply of PRS housing. Some stakeholders argued that increasing demand for the PRS would attract private investment in the development of properties for rent, citing examples of this taking place in England and Northern Ireland. Building-to-rent may become

more common in the years leading up to 2020 and could be encouraged by planning authorities working collaboratively with developers and lenders. In particular, this form of supply could focus on meeting the needs of families living in the Private Rented Sector. However, other studies present a more mixed view on the role of institutional investors. Given the predominance of individual landlords rather than companies or institutions in the Private Rented Sector, these landlords must also be incentivised to bring forward PRS supply.

International studies suggest that the most prominent mechanism for incentivising individuals to bring forward private rented accommodation involves offering tax advantages. The recently introduced changes to Stamp Duty Land Tax (SDLT), aimed at encouraging investment in private rented housing, provide an indication of the willingness of government to consider tax incentives.

The impacts of policies to promote increased investment in the PRS need to be considered across the whole housing system. It will also be important to ensure that incentives to encourage investment in the PRS generate additional new supply rather than simply replacing the supply of homes for sale or social rented housing.

Achieving a stable PRS market

The significant increase in young people living in the PRS projected by this study led many stakeholders to suggest that the sector needed reform. Mechanisms such as landlord registration or accreditation schemes were seen by many landlords as a burden that did not offer them any advantages. While there are valuable schemes working to increase access and promote positive relationships between landlords and tenants, stakeholders suggested that more fundamental reforms are needed.

This study suggests that an alternative structure of landlord incentives, together with checks and balances around tenants' interests, would be a good place for the debate around tenure reform to begin. This may help to overcome concerns about the increase in security of tenure reducing the supply of private rented homes. Other studies suggest that there is scope for governments to trade incentives and constraints, to improve not only the supply of private rented housing but also the conditions on which it is offered to tenants. These conditions can include issues of who accesses the tenure (i.e. lower-income or vulnerable households), rent levels and security of tenure. It may be that such an approach could make best use of existing UK housing tenure structures, where the ability to offer longer-term tenures (such as assured tenancies) is available but rarely used. Tax incentives as a means of improving stability may also overcome, to some extent, the hurdle of buy-to-let lenders being unwilling to support longer-term tenancies within their mortgage terms.

Closer working relationships between representatives of landlords and tenants need to be forged with a view to designing interventions that can be supported by all sides. With many more households in the PRS by 2020, policy makers must now consider the needs of tenants and the requirements of landlords more fully.

Social rented sector

Although stakeholders made few definitive proposals for reform, the message was clear: low-income and vulnerable young people should have the option of accessing social rented housing. Stakeholders – unsurprisingly – asserted that more supply was needed, raising concerns that contemporary policies such as 'Affordable Rents' and the 'Right to Buy' in England may reduce provision further, and at best will result in no additional homes.

There was overwhelming support from stakeholders for the considerable expansion of social lettings within the Private Rented Sector, i.e. where an agency facilitates access to the Private Rented Sector by acting as a broker between the landlord and tenant. Stakeholders felt that this offered access to better areas. However, stakeholders generally agreed that, within an open market, the Private Rented Sector is unlikely to effectively meet the needs of vulnerable young people. As such there may also be scope for social landlords to consider offering more shared properties at rent levels comparable to local housing allowance rates.

There was a consensus among stakeholders that the social rented sector should focus on the needs of vulnerable young people. If combined with proposed improvements to the PRS, it was felt that vulnerable young people could be offered more housing choice.

Vulnerable young people

With homelessness rising, there was a lot of concern among stakeholders about the position of vulnerable young people. The resources available to state and voluntary agencies to tackle homelessness have declined as a result of cuts in public expenditure. In addition, increased competition for tenancies within the PRS, along with welfare reform, mean that there is a real risk of many young people not having their needs met by the Private Rented Sector. Many stakeholders feared a return to unsatisfactory bed and breakfast or hostel accommodation for homeless young people at a time when they would be trying to break away from this. The challenges will differ across the UK, with increasingly diverse homelessness policies being adopted. Scottish local authorities already accommodate far more homeless people in temporary accommodation than those in England and Wales.

Stakeholders strongly advocated a greater provision of shared accommodation in response to changes in Housing Benefit that restrict payments to young people under 35 to the rate of a single room in shared accommodation. It was suggested that landlords could create very small-scale, perhaps only two-bedroom, shared accommodation options. It is notable that most young people in the study viewed shared accommodation as undesirable. They felt that they should have the same access to accommodation as adults. However, even without a major U-turn in policy, stakeholders recognised the need to make the private and social rented sectors work better for vulnerable young people.

Conclusion

In 2020, young people will be further marginalised within a badly functioning housing system. Responding to the housing challenges facing young people in 2020 will require fundamental interventions in the UK housing system. There is a particular need to reform the Private Rented Sector, balancing the interests of both landlords and tenants. The growth of families living in private rented housing will create a need for more stability within the sector.

1 INTRODUCTION

Young people currently face many challenges in all tenures of the UK housing market. While most challenges are not new, the recession has heightened some of the problems, such as lack of available credit and high rates of unemployment.

Recent economic, social and political change has resulted in a lot of uncertainty in the housing options of young people. This report outlines what the situation might look like for young people who are currently aged between 10 and 22, and will be aged between 18 and 30 in 2020.

This report recognises that not all young people are the same and that experiences will vary across the UK. Nine different groups of young people are identified and the challenges they are expected to face in 2020 are described. The report identifies the key steps that policy makers and practitioners must take in order to improve the housing experiences of young people by 2020.

The study draws on four sources of data:

- interviews with 121 young people from a variety of backgrounds
- interviews with 102 key stakeholders across a range of fields, including housing practitioners, housing policy-makers, economists, education and labour market specialists, demographic change and migration specialists, and youth policy-makers
- analysis of secondary data sources, primarily the British Household Panel Survey and the Labour Force Survey
- existing literature

This report first describes the likely context in 2020 by setting out the trajectories of the key drivers of change. The different housing pathways of young people across Great Britain are then explored before the key housing market challenges of 2020 are set out. Finally, the report identifies a series of policy responses to these key challenges.

Methodology

The research used a three-stage mixed methods approach to: identify key drivers that will shape young people's housing experiences; develop and validate young people's housing pathways and their likely housing scenarios in 2020; and develop policy responses to the emerging challenges. These stages are discussed below with further details discussed in Appendix I.

Stage one

The first stage developed an empirical and theoretical basis for the research in order to inform the development of young people's housing pathways and scenarios in stage two, and the policy responses in stage three. A literature review and interviews with 50 young people from a variety of backgrounds and 50 key stakeholders across a range of fields were undertaken in order to identify and determine the likely trajectories of key drivers that will shape young people's housing experiences in the years up to 2020. A 'driver' is anything that may affect young people's housing choices: this includes *macro* drivers, such as the economy, and *micro* drivers, such as family formation. It includes drivers amenable to housing policy responses and more general ones that may be difficult to influence, although important to react to, such as economic forces. In order to determine the trajectory of some of the key drivers, data from the Bank of England, Chartered Institute of Housing, Department for Communities and Local Government, Council of Mortgage Lenders, Northern Ireland government, Office for Budget Responsibility, Office of National Statistics, Scottish government and the Welsh Assembly government were analysed and are described in Chapter 2. Appendix II contains a summary of the data sources used, and a more detailed summary of this work can be found in Clapham, *et al.* (2010).

Stage two

The second stage developed a typology of young people's housing pathways and used these to project their likely housing scenarios in 2020 based on the influence of the drivers described in stage one. This stage combined analysis of British Household Panel Survey (BHPS) data with the young people's interview responses. Sequence analysis and cluster analysis were conducted on ten waves of the BHPS from 1999/2000 (Wave 9) to 2008/09 (Wave 18) in order to assign individuals to pathways based on how statistically similar they were to one another, taking into account transitions within four aspects of young people's lives simultaneously (Pollock, 2007). The four aspects were related to the key drivers and were measured by variables relating to tenure, household type, marital status and economic activity. The sample was limited to people aged 16–21 in 1999/2000 so that sample members would remain within the age range of study (16–30 years old) during the ten-year period. As sequence analysis was used, only cases with non-missing data were included, as there was not a suitable method for imputing missing data across the four variables (Gabadinho, *et al.*, 2011). This reduced the final sample size from 1,518 cases of 16–21 year olds in the 1999/2000 wave to 458 cases.

Sequences of tenure, household type, marital status and economic activity were created for each individual by combining their responses in these areas over the ten years. Sequence analysis calculated the 'distance' between each sequence and all others, thereby providing a numerical indication of the (dis-)similarity of the sequences. A simple Hamming method (Gabadinho, *et al.*, 2011) was used with the 'distance', indicating in how many places the sequences differed. These distances were then used in a Hierarchical Ward's Cluster Analysis in order to create homogenous groups of cases (pathways).

thereby identifying groups of young people with similar transitions (Gabadinho, *et al.*, 2011). When using this type of analysis, the number of pathways that can be assigned has to be chosen by the researcher. This was done inductively using both the quantitative and qualitative data. Nine pathways emerged from thematic analysis of the interviews, and visualization of the four variables in each of the potential pathway configurations indicated that an eight-pathway configuration best mapped on to this thematic analysis. The ninth pathway identified in the qualitative research was one of homelessness, and this was not present in the quantitative analysis due to the nature of the BHPS.

The numbers of young people in each pathway were calculated using the ONS mid-year population estimates for 2008 and 2020. These estimates were also broken down by tenure in each pathway, using tenure data for 18–30 year olds from the Labour Force Survey and the projections to 2020 described in stage one. These projections were corroborated against the qualitative interview data. A more detailed discussion of the stage two methodology, including additional analysis of the data, is described in Appendix I.

Stage three

The key findings that emerged from stages one and two of the research were presented to 71 young people and 52 key stakeholders, who then put forward possible policy responses to the emerging challenges. Notably, many elements of housing policy are devolved functions to the Assemblies in Belfast and Cardiff, and the parliament in Edinburgh, so the direction and details of policy and practice will differ between the parts of the UK. These responses, and feedback from the young people, were synthesized with the stage one findings and the stage two housing pathways/scenarios to produce a distillation of the key challenges facing young people in 2020 and possible policy solutions.

A participatory interview methodology

Interviews were undertaken with young people and key stakeholders. Five 'peer' researchers were recruited to undertake the interviews with the young people, a group which including one care-leaver. The role of the peer reviewers varied: some recruited their own participants, others needed support from the research team in recruiting participants and transcribing the interviews. In stage one, young people were selected for interview by combination of purposive and snowball sampling from within the five broad pathways identified by Ford, *et al.* (2002): *planned, unplanned, constrained, student* and *chaotic*. It was ensured that the young people represented a broad demographic and were within the age range 18–30. Each peer researcher interviewed five young people within two of the pathways in two different regions, resulting in 50 young people participating. Not all pathways were represented in each region. The interviews varied in style from one-to-one interviews to focus-group discussions, depending on the request of the participants and how they were recruited.

In stage three the aim was to interview the same young people recruited in stage one. In cases where this was not possible, new young people were recruited. They were then categorised by the nine pathways developed in the research, and the interviewees from stage one were also (re)allocated to these new pathways. The same peer researchers as in stage one undertook the interviews. In all, 71 young people were interviewed with an average of eight people interviewed within each pathway.

Table 1 illustrates that fifty key stakeholders from a variety of policy fields and backgrounds were interviewed as part of stage one. It was ensured that the stakeholders were from a range of organisations (government

Table 1: Policy expertise of key stakeholders interviewed at stage one

Policy expertise of key stakeholder	Interviewees
Housing policy	15
Vulnerable groups	12
Demographic change	1
Migration	1
Young people policy	4
Housing providers	3
Education	3
Environment	1
Economy and finance	2
General	8
Total	50

departments, third sector organisations, partnerships, universities and research establishments) and covered the four regions. A combination of face-to-face and telephone interviews was employed.

In stage three, 52 key stakeholders were interviewed in a combination of one-to-one interviews and focus-group discussions. The recruitment of the stakeholders at this stage was more from the fields of housing policy, with an emphasis on people dealing with low-income households and vulnerable groups. Again, it was ensured that the stakeholders were from across the four regions.

2 THE CONTEXT IN 2020

In the first report of this study, key drivers were identified that are expected to shape the housing circumstances of young people in 2020 (Clapham, *et al.*, 2010). This chapter updates expectations around the likely trajectories of these drivers.

The instability of current economic and political drivers means that these projections are necessarily broad. They reflect a picture of the most likely outcomes in 2020, extrapolated from the literature, from official data, and from the outcomes of interviews with practitioners and policy makers. The following six key drivers of change are discussed:

- access to home ownership
- the role of the Private Rented Sector
- availability of social housing
- welfare benefits
- housing-related support services and homelessness
- employment

Access to home ownership

Research conducted by the Joseph Rowntree Foundation indicates a rise in the spatial volatility of the UK housing market, with local housing markets becoming more differentiated from the national experience in the most recent economic cycle (Ferrari and Rae, 2011). This increases the level of uncertainty when referring to national forecasts, as housing market responses are more localised and responsive to regional economies, specifically wage power (Ferrari and Rae, 2011). Furthermore, housing market forecasts themselves are limited to the short term due to the vulnerability of the sector to external, and sometimes unexpected, shocks such as the recession and Eurozone crisis.

Recent data indicates that UK house prices rose into 2010, though in Northern Ireland they continued a downward trend since their peak in mid-2007 (CLG, 2011b). The rebound in prices between 2009 and 2010 was felt to be a product of the low level of housing sales during 2009 and early 2010, and the relatively low interest rates for those who were able to obtain mortgages (PwC, 2011). However, as supply and demand for housing equalised, the housing market lost its momentum, with house prices tailing off in mid-2010. The housing market remained weak throughout 2011 (CLG, 2011a) and current views are mixed regarding the future direction of house prices.

The Council of Mortgage Lenders has indicated that the scale of the slump in mortgage lending during the most recent recession has been driven by a reduction in credit availability (CML, 2010). Furthermore, analysis conducted by PwC (2011) suggests that household spending power will be squeezed by continuing credit constraints and the availability of mortgages, resulting in the relatively weak return of the housing market in the coming years. As indicated by Alakeson (2011), due to the lack of high loan-to-value (LTV) mortgages, lower prices are still too high for low-to-middle-income households to access home ownership given the need for a significant deposit. Average house price-to-income ratios have declined since their peak in 2004, but they are still higher than they were in 1999. For first-time buyers, the average price-to-income ratio in the UK in 2010 was 4.54, while it was 5.17 for former owner-occupiers. The corresponding deposit-to-income ratios were 3.07 and 2.84 respectively (CLG, 2012, Table 517). Furthermore, the availability of high LTV mortgages may not return to their 2006 peak (Alakeson, 2011), with projections from Oxford Economics (2011) suggesting that they will start to 'creep up only steadily from the 2010 averages'. This will take on a regional dimension as house price increases more rapidly in some areas (e.g. London) than others, influencing the time taken to raise larger deposits in higher-priced areas.

Moving on to 2020, access to home ownership for first-time buyers will be shaped by both wealth and income barriers (Pawson and Wilcox, 2011). Changes in loan-to-value (LTV) ratios and credit constraints will therefore be instrumental in mediating these barriers and determining future affordability for this tenure. However, Heywood (2011) indicates that there has been a long-term decline in the affordability of home ownership, even prior to the recent economic downturn. Furthermore, in the wake of the banking crisis of the late 2000s, it is unlikely that the availability of mortgage finance will return to its pre-2007 levels due to changes in consumer regulations and stricter requirements on lenders (Heywood, 2011). Recent government policy proposals in England suggest that for new-build properties in England, 95% loan-to-value mortgages will be available as a result of the house-builder indemnity fund, although it is unlikely that this will meet the needs of many young people, most of whom are likely to buy within the more affordable existing stock.

According to the Council of Mortgage Lenders, the average age of a first-time buyer in the UK in 2009 was 31. Current projections suggest that in 2020 the average age of homeowners will be higher. The National Housing Federation (NHF) indicated that the average single 21-year-old who regularly saves, receives no additional financial support and has no children will be 43 before being able to buy a first home based on a 20 per cent deposit (NHF, 2010). Currently, low-to-middle earners (LMEs) can expect to spend up to 31 years saving in order to make their first purchase, based on saving 5 per cent of their net income (Alakeson, 2011). Taken together these projections imply that many young people who are now 18 years old will be unable to enter into owner-occupation by 2020.

Changes in higher education fees may also result in a worsening of young people's ability to afford housing. In 2015, full-time students are predicted to graduate with a debt of roughly £18,000, whereas in 2008 student debt was around £11,000 (Finn, 2011). This will increase the likelihood of delayed graduate entries into home ownership leading up to 2020, as indicated by Andrew (2010). The prospect of higher fees may also change the nature of student housing choices, engendering a switch to local universities and staying in the parental home while studying. Research conducted by the Department for Business, Innovation and Skills (BIS, 2010) indicated that an increase of £1,000 in upfront tuition fees decreases participation by 4.4 percentage points. Even with proportional increases in student loans, the scale of the increase in fees may reduce higher education participation, shifting young people's long- and short-term patterns of housing consumption.

Interviews with young people across the UK revealed that short-term expectations have been susceptible to external shocks and immediate difficulties in accessing home ownership, with many no longer expecting to access owner-occupation in the short term. However, young people's long-term expectations for home ownership remain high and stable, despite a decline in home ownership levels for this age group. This finding is supported by analysis of the 2010 British Social Attitudes survey data for England, which indicates that the expectation to buy in the future was strongest among the youngest age groups (18–34 years), in addition to their expressing the highest preference for buying (Taylor, 2011). These underlying preferences for home ownership lead us to believe that, should economic circumstances improve for young people, lending criteria loosen, and financial products become more widely available, this age group may attempt to regain a foothold in owner-occupation.

The role of the private rental sector

There have been longstanding changes in the tenure mix of the UK housing market, which some commentators believe may continue. Pattison, *et al.* (2010) claim that, should tenure trends persist, the Private Rented Sector will be larger than the social rented sector by 2013, and that by 2020 one in five households could be in the Private Rented Sector. They also believe that some of the drivers behind the changes in tenure mix will continue, for example the continued affordability gap between private renting and owner-occupation, making the growth of the Private Rented Sector a serious possibility (Pattison, *et al.*, 2010). Conversely, Ball (2010) indicates that although numbers may increase the total proportion in the Private Rented Sector is unlikely to change. However, Ball's (2010) analysis was based on the assumption that housing benefits and social housing remained broadly stable, which is highly unlikely given current/planned spending cuts and social security reforms.

Taylor (2008) indicates that, with current demographic and economic trends, demand for accommodation in the Private Rented Sector is expected to remain strong, citing demand for an additional 600,000 private rental homes by 2021. This was felt to be an underestimation of the demand for private renting, as worsening housing affordability was not accounted for in the original study (Taylor, 2008). For instance, in England 21 per cent of household income was spent on rent in 2007, up by 4 percentage points since 2001. The corresponding figure was 26 per cent in London, up 3 percentage points (NHPAU, 2010). Furthermore, government policies in England show some political support for the expansion of the sector through build-to-let pilots (CLG, 2011a). Despite political support and the apparent increase in demand,

Ball (2010) warns that any decline in the profitability of the sector for current private rental landlords may result in their retraction from it and consequent declines in private rental availability (Ball, 2010).

Interviews from our study suggest that many young people without children will spend their 20s in the PRS by choice, due to the flexibility it offers. By contrast, many interviewees who were living in the PRS with children suggested that they expect to remain in it, despite aspiring to be homeowners, feeling trapped by affordability issues. For most, home ownership remains the long-term goal.

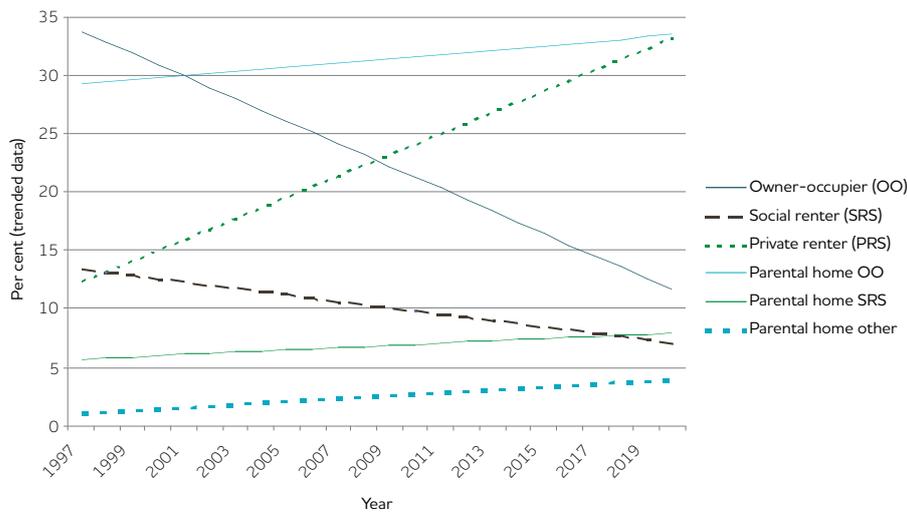
Availability of social housing

In 2007 the Chartered Institute of Housing (CIH, 2007) produced projections for the profile of the social rented sector by 2021. The report claims that, if current tenure and demographic trends persist, there will be a smaller proportion of households in the social rented sector overall (CIH, 2007). This finding is echoed by Pattison, *et al.* (2010) who indicated that high rates of right-to-buy sales had resulted in a decline in the absolute size of social housing stock, and that despite the rate of right-to-buy sales recently falling below completions (Pattison, *et al.*, 2010) the rate of household growth in the UK will still result in a decline in the relative size of the sector. Recent proposals in England to increase right-to-buy sales through heightened discounts for tenants will reportedly have a neutral impact on overall stock, with a policy of 'one sold, one built' (CLG, 2011a). However, this assumes that a house sold at a discount generates enough revenue to build a new house and that this new house will be built in the same locality as the one sold; both assumptions are questionable.

Projections for an overall diminishing social rented sector are likely to worsen as the capital budget for affordable housing was cut from £8.4bn for the period 2008–2011 to £4.5bn for the period 2011–2015. The National Housing Federation consequently estimates that by 2020, spending cuts could result in a reduction of 500,000 affordable homes from government plans (Pattison, *et al.*, 2010). The forthcoming introduction of fixed-term tenancies in England may also have an impact on the number of social rented properties available, increasing move-on from the sector. However, the impacts of these new time-restricted tenancies are currently unknown and unlikely to have a significant effect prior to 2020, as most will be no less than 5 years in length.

In a proportionally smaller social rented sector, the Chartered Institute of Housing (2007) predict that the percentage of young families will increase, while the percentage of older households will decrease as a result of demographic changes. Furthermore, several commentators have indicated that the residualisation of the sector will continue to play an important role in the sector's uptake in the future (Stephens and Williams, 2008; Thornhill, 2010). In interviews conducted as part of this study we found that young people who grew up within the social rented sector, or in housing need, are likely to have positive perceptions about such tenure and may aspire to move into social rented housing themselves. However, due to poor availability, and in some cases poor conditions or locations, increasing numbers of young people will not expect to enter social housing. Those young people who grew up in other tenures on the whole do not expect/aspire to enter social housing unless they are in housing need.

Figure 1: Trend-based tenure change and projections for young people aged 18–30 between 1997 and 2020



Source: Labour Force Survey up to 2008; author-developed trend continued to 2020

Tenure projections

Taking into account the discussion relating to the previous three drivers, and using trend-based projections, Figure 1 forecasts the anticipated tenure change for young people up to 2020. Significantly, we distinguish between young people living independently or with their parents. The method behind the projections is discussed in Appendix I and involves deriving a linear trend by regression analysis on tenure data from the Labour Force Survey between 1997 and 2008, and extrapolating this forward to 2020. The trends show a significant increase in the PRS population and an equally significant decrease in the owner-occupier population. Less significant increases are expected in those living with parents in all sectors, while a slight decrease is expected in the proportion of all young people living in the social rented sector.

Welfare benefits

In the first report of this study (Clapham, *et al.*, 2010), key changes to welfare benefits were identified and discussed. The Welfare Reform Bill 2010–11 has subsequently been published with at least one of the key measures being removed. There will no longer be a reduction in Housing Benefit by 10 per cent for anyone claiming Job Seeker’s Allowance for more than twelve months. The key changes going into 2020 are likely to include:

- a reduction in the Local Housing Allowance to cover only the lowest third of local rents
- restricting Local Housing Allowance Levels and applying weekly caps
- an increase in non-dependent deductions
- extension of the shared accommodation rate to under 35s

In 2020 there will be fewer properties at an affordable rate for people in receipt of Housing Benefit. Calculations by the Department for Work and

Pensions (2010) illustrate an average reduction in Housing Benefit payments of £12 per week across the UK and £22 in London. In addition, in a sample of landlords who currently rent to people in receipt of LHA, roughly 40 per cent stated that they will scale back the number of rents they are willing to make to this group (Fenton, 2010). This may therefore reduce the number of properties available at rents affordable to young people in receipt of Housing Benefit, particularly in the Private Rented Sector. Moreover, the gap between Housing Benefit receipts and rental costs is likely to increase, as housing benefits will now be calculated against the Consumer Price Index. Finally, changes to non-dependent deductions may lead to some young people being asked to leave the family home due to the impact of the reduction on family income, thereby affecting the possibility of returning to or remaining in the parental home for some young people.

The shared accommodation rate for housing benefit claimants currently applies to those under 35 years old living in the PRS. These young people receive payments at the rate of a single room in a shared house rather than the rate for a self-contained one-bedroom property. The age limit rose from 25 to 35 in 2012, with the exception of those who have lived in a homeless hostel for three months or more. This may result in different household formations, with thousands of young people living in self-contained flats being unable to afford their accommodation and forced to find shared or alternative lodgings (Crisis, 2011b). Crisis indicate that roughly 88,000 young people may be affected by these changes, and that those living in rural areas and small market towns, where alternative accommodation is in short supply, are likely to be disproportionately affected (Crisis, 2011b). There is also the fear that the changes may increase the number of houses-in-multiple-occupancy in deprived areas, as well as leading to some young people experiencing homelessness (Crisis, 2011b).

Housing-related support services and homelessness

Despite some protection of the budget allocated to Supporting People, the funding is not ring-fenced in England or Scotland and there is evidence of relatively high levels of cuts being implemented by local authorities. For example, Camden has experienced cuts of 60 per cent (Inside Housing, 2011). While there will be considerable variation in levels of cuts at the local authority level, in broad terms it can be assumed that reductions in Supporting People funding will lead to a reduction in the levels of housing-related support available to vulnerable young people (NHF, 2010). In the National Housing Federation's Supporting People Review, single homeless people were identified as one group most at risk of being affected by budget cuts (NHF, 2010).

There are indications that public sector cuts are already affecting housing-related services. Homeless Link's Survey of Needs and Provision (SNAP) indicates that there has been a 6 per cent reduction in projects primarily funded by Supporting People (Homeless Link, 2011). Furthermore, 50 per cent of service providers have experienced a reduction in income compared with the previous year, of which 63 per cent stated that this has impacted on their clients (Homeless Link, 2011). However, this may be an underestimation of the full effects of cuts on services, as the survey was conducted before local government settlements for 2011/12 were known (Homeless Link, 2011).

Homelessness numbers were declining since a peak in 2003/04, but since 2009 there has been an increase in applications and acceptances (CLG, 2011c). In the UK, the estimated number of homeless young people

increased from 40,500 to 46,500 between 2009/10 and 2010/11. If, during the next decade, we envisage an increasing trend in homelessness, albeit at a diminishing rate, the number of homeless young people (aged 18–30) in the UK will increase to an estimated 81,000 in 2020. Full details of the methodology used to produce this estimate can be found in Appendix I.

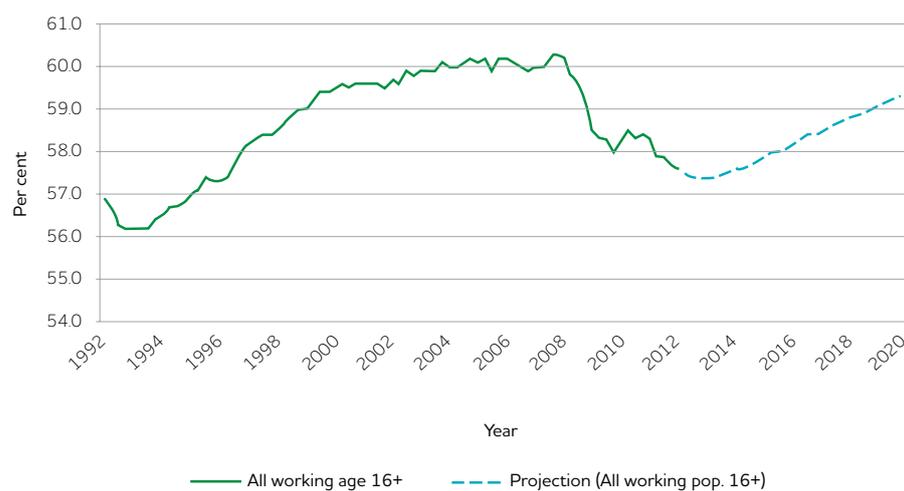
Employment

The majority of the drivers of change identified by interviewees relate directly to housing and housing-related support. However, the final driver, youth employment, is not directly housing-related although it is perceived to have a likely impact on the housing options of young people. According to the Office for National Statistics (2012) unemployment levels for economically active 16–24 year olds reached 22.2 per cent in February 2012.

Figure 2 illustrates OBR working-age employment projections until 2017 and a further extrapolation of these predicted trends until 2020. It might be assumed that youth figures would follow a broadly similar trend, but such an assumption would be at odds with the increasing unemployment of young people that was occurring prior to the recession (OBR, 2010) and its current higher rate. Therefore, youth employment is likely to increase into 2020, but at a reduced rate in comparison to the wider working-age population. Taking these assumptions into account, it is likely that employment levels in 2020 will be just below the pre-recession rate.

While the OBR projections offer a reasonable insight into likely employment levels for the working-age population, it is still important to recognise that competing projections also exist. For example PwC warns that a double-dip recession could lead to constraints on funding for businesses and households, thereby resulting in a renewed increase in unemployment (PwC, 2011).

Figure 2: Employment rate projections for working-age population, age 16+



Source: OBR projection up to 2017 Q1; author-developed trend continued to 2020 Q1

UK housing policy and devolved government

Housing policies and legislation in the UK are very complex, in part because they cut across other policy arenas but also because different aspects of housing policy have been devolved over the past decade. The result is that UK housing issues are affected by a mosaic of policy and legislation from both Westminster and the devolved governments, resulting in regional variations in how housing policy impacts on people's housing choices and experiences. Regulations affecting lending and levels of benefits are currently the reserve of the Westminster government, as are various planning and legislative acts. The Comprehensive Spending Review has also resulted in significant budget cuts to the three devolved regions, creating pressure on housing initiatives – particularly in relation to housing supply, improvement and grants. These factors have limited the role of the devolved governments in many important housing policy areas, although more devolved powers are being promised over the coming decade.

Devolution resulted in very different settlements for each of the devolved administrations. Today, Scotland has well-established primary law-making powers that have resulted in some significant policy divergences, perhaps most notably in its homelessness legislation. Since devolution, the Northern Ireland Assembly has also held primary law-making powers in relation to housing, although when the Assembly was suspended between 2002 and 2007 powers returned to the UK Secretary of State for Northern Ireland. The Welsh Assembly government settlement was different, and only in 2011 did the government gain powers to develop and implement primary legislation on a range of housing issues. Notably, the first Housing White Paper for Wales was published in May 2012.

Important ideological differences between the Westminster government and the devolved regions regarding the support they provide for different tenures and low-income households has resulted in policy variations between England and the other three regions. Thus the Scottish and Welsh governments and the Northern Ireland Executive are committed to the principle of subsidising the cost of housing for people who find it difficult to secure a home. This contrasts with the Westminster government's policies on housing benefits and social rents, which are seen as disadvantaging low-income and vulnerable people and risk segregating the poorest people into the cheapest areas. The following overview of housing policy in the UK is by necessity brief and discursive. It highlights the salient points according to housing tenure and provides a regional comparison where appropriate.

Home ownership

Policies regarding home ownership across the four regions are geared around encouraging and facilitating housebuilding to increase supply, and in England these policies are distinctly market-driven, with less emphasis on affordable homes. In the short term, policies are aimed at kick-starting housebuilding developments that have stalled due to the economic downturn. Policies in England include a new-build indemnity scheme led by the Home Builders Federation and Council of Mortgage Lenders, providing up to 95 per cent loan-to-value mortgages for new-build properties; a £500 million 'Growing Places Fund' to support housing-related infrastructure; a £570 million 'Get Britain Building' investment fund for small and medium-sized housebuilders; freeing up public sector land with 'Build Now, Pay Later' deals; and supporting individuals building their own homes through a 'Custom Homes' programme. In the devolved regions there is much more of an emphasis on supporting home ownership for lower- to middle-income households, such as increasing

the use of shared-equity and rent-to-buy schemes, and self-build schemes. In Northern Ireland, the co-ownership scheme has been significant in allowing low-income households to buy their homes. In Wales, there is support for cooperative housing to provide new forms of affordable home ownership. In England, the FirstBuy equity loan will enable first-time buyers to purchase a new home with an equity loan of up to 20 per cent in order to reduce the deposit needed. However, the lack of lending among banks to housebuyers is seen as a major short-term barrier to home ownership, and there is a growing call on lenders (including credit unions) to provide new forms of mortgage products and encourage new providers to the market.

Private Rented Sector

Policies in the four UK countries all support growth and investment in the PRS. In England, for example, there is the Homes and Communities Agency 'Build to Let' model, whereby new homes are built specifically for rent. In Northern Ireland, the large PRS has helped reduce pressure on social housing, and its future importance in this area is set out in the 'Building Sound Foundations' strategy. In Scotland and Wales, housing associations will be able to provide market rental homes, as well as intermediate and social lets. The Welsh government is considering adopting successful initiatives from elsewhere, such as the Innovation and Investment Fund and the National Housing Trust in Scotland, with homes at intermediate rent levels for tenants on low-to-medium incomes. In Scotland, there will be a substantial expansion of intermediate rental properties to complement the social rented sector and ease the pressure on it. There is also a commitment across all four regions to improve conditions in the PRS, with devolved governments getting more powers to regulate PRS accommodation and tackle dangerous and poorly maintained homes. The Westminster government is introducing changes to Stamp Duty Land Tax to help large-scale investment in private rented accommodation across the UK, and is legislating on changes to Real Estate Investment Trusts in order to improve access to finance for residential investment in the PRS, as there are concerns that it is currently too complicated.

The big policy change already beginning to affect the PRS is to housing benefit via the Local Housing Allowance, with rates now set at the 30th percentile in each area (meaning that around 3 in 10 properties should be affordable to people on local housing allowance). Further changes, due in 2013, will restrict the amount of benefit paid to working-age claimants living in under-occupied properties, and will also introduce a Single Universal Credit to combine all benefits. These changes will inevitably reduce choice, especially for young people (who are typically single, on lower incomes or unemployed). Poorer tenants will be priced out of the more expensive areas, leading to greater social divisions and jeopardising the creation of mixed communities.

Social Rented Sector

One of the most striking differences in housing policy between the regions is seen within the social rented sector. In England, the Localism Act 2011 will reform social housing by changing the way in which people access social housing, the types of tenancies provided (e.g. shorter tenancies, in some cases 2 years) and the way that the homelessness duty is discharged (a much greater emphasis on social housing available only for those who need it most). The result is that in England, social housing will increasingly be treated as a 'springboard for social mobility' for tenants rather than a long-term housing solution, with new powers given to social landlords to recover properties (for instance, if they are being subletted) along with mechanisms to charge

more market-oriented rents if possible. This contrasts with Scottish policy, where social housing is regarded as having a vital role in providing people with affordable homes. Here, a secure tenancy at an affordable rent remains core for new and existing social tenants on low incomes, with these rents not increasing or tenancies becoming insecure simply because the tenants' household income improves or their circumstances change. Ending social tenancies after a fixed period may lead to a revolving door of applications (Kelly and Stirling, 2011).

However, across all regions there is recognition of the need to create a level playing field for social and private landlords in order to remove barriers that prevent or constrain people's abilities or willingness to move between tenures. The aim is to provide more choice and flexibility in tenure, driven by people's needs and aspirations but with safeguards for the vulnerable. Policies here include providing mechanisms such as Housing Health Checks (Scotland) and the Housing and Homelessness Information Pack or a Personal Housing Plan (Northern Ireland), allowing potential and existing social tenants to review their options and perhaps move within or beyond the sector as circumstances change. HomeSwap Direct will allow tenants in the social rental market to swap tenancies in different parts of the UK.

The Scottish and Welsh governments and the Northern Ireland executive are committed to increasing the number of affordable houses in ways that lever in maximum possible amounts of funding from elsewhere, such as pension funds and other institutional investments, with the Scottish government aiming to create a National Housing Bank by 2020 to support the future funding of affordable housing. However, the supply of social housing is likely to be less than in recent years, particularly in England and in Northern Ireland where restricted funding will result in a considerably reduced programme and a shortfall in the number of new social homes.

Following the emphasis on home ownership in England, there are new policies surrounding right-to-buy, making it easier for social rented tenants to buy their home by doubling the current average discount. Although there is a commitment to replace a right-to-buy property with a new home at an affordable rent, this may not be of the same type, size or in the same location as the one sold, and crucially will also depend on private sector investment. In Northern Ireland, the Housing Executive's House Sale scheme allows tenants to buy their home after five years, and in the past this has been an important revenue stream for building new social housing. In Scotland, however, with the removal of right-to-buy for new homes and new tenants, and the removal of excessive features of the preserved right-to-buy, it will be harder for social tenants to buy the property that they currently rent. The Scottish government is also considering limiting the right to succession, for instance if this will lead to under-occupation.

There are policies across the four regions for increasing the affordable housing stock by bringing empty houses and buildings back into use, increasing the use of under-occupied homes and changing the Council Tax legislation for long-term empty homes. The Scottish and Welsh governments and the Northern Ireland Executive will also work with local authorities to ensure an effective supply of land for affordable housing.

Homelessness

Homelessness is rising across all regions at a time of declining funding for homelessness initiatives. The UK welfare reform agenda will put increasing pressure on young people such as the single-room rent for those up to 35 years (Kelly and Stirling, 2011). Furthermore, the gap between rents and levels of housing benefit in the PRS is expected to rise. It is currently unclear how

landlords will respond to these changes or how this will feed into actual levels of homelessness. Policy responses to homelessness across the UK are diverse. Scotland stands out as unique in that it is due to achieve its target of abolishing priority need by 2012 – all homeless households will then be eligible for permanent housing. In seeking to meet this target, nearly 60 per cent of all new social lets are now made to homeless households in Scotland. The approaches in England and Wales are fairly similar, with a focus on prevention sitting alongside a duty to provide suitable accommodation to those in priority need. The key difference between England and Wales is the recent decision in England to unconditionally allow local authorities to discharge a homelessness duty into the PRS. This change is likely to be replicated in Wales (Mackie and Hoffman, 2011) alongside the possibility of more fundamental changes currently being explored in a review of Welsh homelessness legislation.

3 YOUNG PEOPLE'S HOUSING PATHWAYS TO 2020

It is clear that all young people will be affected, at least to some extent, by the changing context discussed in the previous chapter. However, the impacts of these changes will affect young people in different ways.

This chapter will identify the existing differences in young people's housing experiences, before exploring the scenarios they are likely to face in 2020.

Identifying the housing pathways of young people

Young people's housing experiences are best explored by looking at the pathway a young person takes through the housing system over a period of time. Comparing these pathways reveals significant differences and similarities, and while the housing pathway taken by each young person is unique, Ford, *et al.* (2002) have previously identified five main pathways: *planned*, *unplanned*, *constrained*, *student* and *chaotic*. Ford, *et al.* (2002) argued that the ability of young people to plan their entry into independent living, the extent and form of any constraints, and the degree of family support largely determined the nature of a young person's experiences.

Rugg (2010) recently argued that young people's housing experiences might have changed as a result of the economic and social conditions in the UK. In response, we undertook a new analysis of British Household Panel Survey (BHPS) data, which can be used to trace changes in the tenure, household type, income and education of young people up to 2008. Coupled with detailed qualitative interviews of young people across the UK, our analysis supports Rugg's hypothesis, revealing nine different housing pathways. Eight of the pathways tend to end in a particular tenure and are identified below. The ninth, the *chaotic* pathway, cannot be attributed to a particular tenure and accounts for households whose experiences often include homelessness.

Home owners

- Stay at home to own
- Dual income, no kids owners (DINKOs)
- Two parent families
- Early nesters

Private renters

- Young professional renters

Social renters

- In the social queue
- Lone parents
- Social renting families

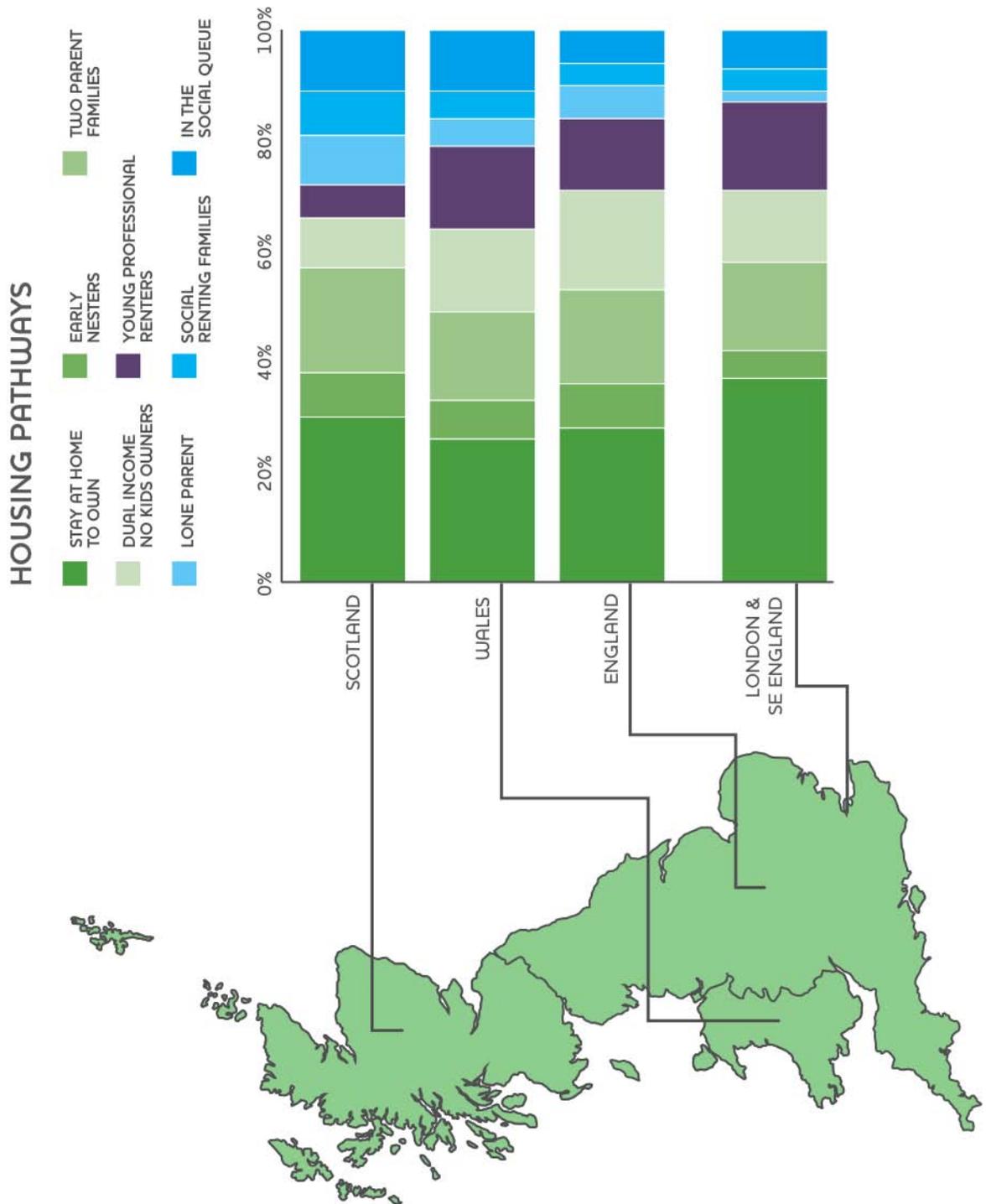
The geography of young people's housing pathways

Figure 3 and Table 2 give an indication of the proportion of young people in each pathway in England, Scotland and Wales in the final year of the BHPS analysis (2008/09). The sample obtained from the BHPS did not include any members from Northern Ireland. Furthermore, as the data presented in Figure 3 and Table 2 were based on the BHPS analysis, in which the *chaotic* pathway was not present, geographic breakdowns for this group are not available. The next section of this report provides a clear definition of each pathway and makes reference to Figure 3 in order to describe key geographical variations within each individual housing pathway.

Table 2: Percentage of young people in each housing pathway by region (2008/09)

		England	Scotland	Wales	London and southeast England	Rest of England
Home owners	<i>Stay at home to own</i>	28	26	30	37	25
	<i>Dual income, no kids owners</i>	18	15	9	13	20
	<i>Two parent families</i>	17	16	19	16	17
	<i>Early nesters</i>	8	7	8	5	9
Private renters	<i>Young professional renters</i>	13	15	6	16	12
Social renters	<i>In the social queue</i>	6	11	11	7	6
	<i>Lone parents</i>	6	5	9	2	7
	<i>Social renting families</i>	4	5	8	4	4

Figure 3: Proportion of young people in each housing pathway by region (2008/09)



The housing scenarios facing young people in 2020

The nine housing pathways of young people in 2008 reflect particular combinations of characteristics including tenure, household type, income and education. While each characteristic is important in determining the pathway a young person takes, it is anticipated that the challenges young people face in 2020 will mostly be dependent on the tenure they seek to occupy. Hence, tenure will provide the framework for discussing young people's housing scenarios in 2020. This section of the study provides a detailed account of the different pathways young people tend to follow into owner-occupation, private renting or social renting. However, it is important to recognise that while pathways tend to end in a particular tenure, not all young people in a given pathway will end their journey in the dominant tenure (a brief summary of each housing pathway, and the characteristics of the young people who follow it, can be found in Appendix III). Informed by interviews with key stakeholders across the UK, each pathway discussion includes a trend-based projection of the likely changes in the pathway population up to 2020. Finally, we discuss the scenarios young people in each of the tenures are likely to face in 2020.

Pathways tending to end in home ownership

Four main pathways into home ownership emerged from analysis of British Household Panel Survey data and in-depth interviews with young people from across the UK. The pathway followed by the majority of young people is the *stay at home to own* route, whereby young people will generally remain in the family home throughout their twenties and into their early thirties in order to save the capital to pay the deposit on a mortgage. The second most frequently followed pathway is the *dual income, no kids owners* pathway, whereby young people leave the parental home and enter shared accommodation in the PRS. These young people then generally form couples before they are 30 and many will enter owner-occupation. The two remaining pathways into home ownership are significantly different because the young people following these tend to form families before they are 30. The key difference between the two family formation pathways is that *early nesters* will generally leave the family home and form a family far earlier than *two parent families*. Generally, *early nesters* will have left home before the age of 21. Brief descriptions of these pathways into home ownership are given below, along with estimates of their population sizes in 2008 and 2020. The justifications for projected changes in population sizes are given in the discussion of the 2020 scenario that follows these descriptions. In addition to the four main pathways into home ownership, it is important to recognise that a minority of young people following pathways dominated by other tenures also became homeowners or remained in the owner-occupied parental home.

Pathway 1: stay at home to own

2008 population: **3.7 million** | 2020 population: **4 million**

This is the most common pathway, with approximately **3.7 million young people** (aged 18–30 years) following it in 2008. The majority of these young people live in an owner-occupied parental home, with roughly half (47%) remaining there for over 10 years, while others leave only to return later on. In total, 2.9 million young people following this pathway were in

Pathway 1: *continued*

the parental owner-occupied home in 2008. Where young people do leave home, it is mainly into owner-occupation, with roughly 15% owning after ten years. Currently, many more young people are choosing to remain in the parental home for longer until they are able to build up sufficient funds to make a first-time purchase. There is very little couple formation in this pathway.

Roughly one third of these young people have higher-education qualifications (30%); they are the third most educated group across all of the pathways. Their median annual incomes are also comparatively high for the groups within this analysis, at £18,739. This group aspires to owner-occupation; however, these aspirations and their ability to access such tenure have been delayed by the recent economic downturn. Even with prolonged periods in the parental home, these young people face issues in gaining access to affordable mortgage products. Some of the young people consider home ownership to be a risk, and are therefore choosing to remain in the parental home until the housing and labour markets improve.

At 37%, London and the southeast of England had the highest proportion of young people following this pathway, compared to England's average of 28%.

Pathway 2: dual income, no kids owners (DINKOs)

2008 population: 1.4 million | 2020 population: 1.4 million

In 2008 this was the third most common housing pathway, with approximately **1.4 million young people** (aged 18–30 years) following this route. These young people tend to leave the owner-occupied parental home and enter Private Rented Sector (PRS) housing. After ten years, roughly 40% (560,000 young people) were in owner-occupied accommodation, while a third lived in the PRS. This pathway shares some similarities with the *young professional renters* pathway, in that it includes periods spent living in the PRS as single-person households or with unrelated adults. However, the key difference is that in this pathway a higher percentage eventually form couples and enter into owner-occupation. Unlike the *early nesters* and the *two parent family* pathways, couples in this pathway tended not to have children before they were at least thirty.

This group has the second highest level of education across all of the pathways reported, with 53% having been in higher education and a further 42% holding A-Levels or GCSEs. Their median annual incomes are the highest at £21,629.

Although these young people aspire to be homeowners, for those with no higher education qualifications, their ability to access such tenure is limited. As a result, they have limited expectations of entering home ownership within the next five to ten years. When they do form couples, the higher household income improves their ability to access home ownership; however, increases in deposit requirements have reduced this likelihood for more recent pathway members. England had the highest proportion of young people on this pathway (18%), although this figure is much lower in London and southeast England. Wales has the lowest proportion at 9%.

Pathway 3: two parent families

2008 population: **1.1 million** | 2020 population: **850,000**

In 2008 approximately **1.1 million young people** (aged 18–30 years) were in this housing pathway, making it the fourth most followed. These young people tend to leave the parental home and enter either owner-occupation or the PRS, with the majority (720,000 young people) being owner-occupiers after 10 years. Unlike young people in the *early nesters* pathway, these young people spend longer in the parental home and the average time spent as single households and as couples in households is greater, indicating longer routes into family formation.

This group had high levels of further and some higher education; 26% had a higher education qualification while 30% had A-Levels and 43% had GCSEs. As a result of these qualifications and the young people's stable employment histories, they have relatively high median annual incomes, in comparison with the other pathways, of £17,527. Despite this relative success, the ability of current pathway members to access home ownership is constrained by credit restrictions and the need for substantial deposits.

The aspirations of this group are toward home ownership, although there is currently an increased perception of risk being observed among pathway members. This, combined with difficulties in accessing credit, has led to a reduction in the proportion accessing home ownership in the medium term. New first-time buyers following this pathway were observed to be 'future-proofing' – aspiring toward homes which would be able to accommodate a growing family, necessitating a delay in their entry into home ownership until higher deposits could be achieved. The incidence of this pathway is fairly evenly spread across different regions, although at 19% it is slightly higher in Wales.

Pathway 4: early nesters

2008 population: **500,000** | 2020 population: **420,000**

This was one of the least populated pathways in 2008, with approximately **500,000 young people** (aged 18–30 years) classed as *early nesters*. These young people tend to leave the parental home by the age of 21, with most (86%) living as couples with children after ten years. Most exits from the family home were into owner-occupation (330,000), with the remainder generally entering and remaining in the PRS. Interviews indicate that exits from the parental home are often as a result of unplanned pregnancy, albeit in the presence of significant family support to facilitate their move.

Although many of the young people on this pathway are in employment, there are intermittent periods of inactivity. Median annual incomes are low compared to the *two parent family* pathway, at £14,210. Although total household incomes are likely to be higher, this is constrained by the early child-rearing of this group compared to the *two parent family* pathway. These young people had mixed qualification levels, and although 34% had A-Levels and 37% GCSEs, 9% reported having no qualifications (which is much higher than for *two parent families*).

Pathway 4: *continued*

Interviews with contemporary pathway members indicated that the young people saw home ownership as a stable family tenure; however, due to affordability constraints many were limited to the private sector for the time being.

London and southeast England had the lowest proportion following this pathway at only 5%, compared with 8% for Scotland and Wales. This may be attributable to higher house prices and limited affordable rental housing in this area, constraining this group of young people's unplanned exits despite having access to family support.

The scenarios facing homeowners in 2020

As a result of the very real prospect of continuing high deposits and a general squeeze on incomes, in 2020 the most significant impact on young aspiring homeowners will be limited access to home ownership. Trend based tenure projections suggest that the proportion of young people accessing home ownership will decline. Interviews with young people and key stakeholders across the UK, as well as secondary data analysis, suggest that there are likely to be three key consequences of reduced levels of home ownership: more young people will stay at home for longer, the role of parents will become even more significant in facilitating access to home ownership, and more young people will live in the PRS.

In 2020, it is anticipated that a proportion of young people who would typically have followed a pathway into home ownership (e.g. *two parent families*, *DINKOs* and *early nesters* pathways), will be forced to remain in the parental home for longer in order to save the capital required for a deposit. Young interviewees explained that living with parents for longer often resulted in 'shame' and a loss of privacy, but these negative consequences were outweighed by the economic benefits of a reduced rent. For these aspiring young homeowners the future loan-to-value rate for mortgages will play a key role in their ability to access home ownership.

While difficulties in raising the capital for a deposit persist, access to home ownership for young people in 2020 will be largely dependent upon the ability and willingness of parents to provide deposit finance. For the large number of young people who cannot accrue the necessary deposit and who seek independence from the parental home, the PRS will increasingly become the only option. Experiences of young people in the Private Rented Sector will vary, largely dependent on two factors: household income and household type.

A proportion of young people from all home ownership pathways, with significantly different incomes, will enter the PRS. Historically, and despite the post-recessionary increase in unemployment, graduates fare better in the labour market compared with their non-graduate peers (ONS, 2011). Those young people with higher education are more likely to have higher incomes that allow them to compete very effectively for properties in the PRS. Those young people educated to a lower level are more likely to face unemployment (ONS, 2011), will have lower income levels and may be more constrained in their choice of PRS accommodation. Notably, the proportion of young people not pursuing higher education is likely to increase in 2020 as a result of recent fee changes, thereby slightly reducing the proportion of young people who are competitive in the PRS.

Young people who follow an *early nester* pathway into home ownership have lower levels of education relative to all other home ownership pathways, and if

fewer young people go to university because of changes to higher education fee structures, then more school and college leavers will be looking for jobs and competing with this group in the labour market. This rather negative outlook in terms of employment will mean that incomes remain relatively low compared with many other young people living in the PRS, therefore leaving them with a choice of only lower-end properties.

Young couples squeezed into the PRS will face the decision of having children therein, or postponing starting a family until they are able to enter home ownership. Interviews with young people in both the *two parent* pathway and the *early nester* pathway revealed that most young people would not put off having children, resulting in significantly different demands being placed on the PRS. However, young families did feel that the PRS was not ideal for them because they were 'at the whim of landlords' and could easily be moved on, affecting their ability to 'put down roots'.

Pathways tending to end in private renting

One main pathway into private renting emerged from analysis of British Household Panel Survey data and in-depth interviews with young people from across the UK. In this *young professional renters* pathway, young people generally left the parental home and entered the Private Rented Sector, where they remained for some considerable time. These young people generally shared accommodation and most had attained qualifications higher than A-level standard. A more detailed description of this pathway into private renting is given below, along with an estimate of the population size in 2008 and 2020. The justification for a projected change in population size is given in the discussion of the 2020 scenario that follows this description. Notably, a significant minority of young people following the other pathways also became private renters, hence the total number of private renters in 2008 was significantly greater than the total number of *young professional renters*.

Pathway 5: young professional renters

2008 population: 1.6 million | 2020 population: 2 million

In 2008 approximately **1.6 million young people** (aged 18–30 years) were *young professional renters*, making it the second most popular pathway. Young people on this pathway tend to start off in their parent's owner-occupied home, with the majority leaving to move into the Private Rented Sector, where they stay for some considerable time. The initial move from the parental home is, in a large number of cases, to pursue higher education. The majority of these young people remain in the PRS (1 million), although roughly 15% enter into owner-occupation after ten years.

This pathway is distinct in that non-familial household formation is a significant part of these young people's lives, either as single-person households or through living in shared households. Interviews indicated that these young people, some of whom are not engaged in higher education, are mostly *choosing* to share, whereas young people in other pathways are often forced to share for affordability reasons. Return to the parental home is not as common as previously assumed for these 'student types', mostly due to them wanting to retain their independence.

Pathway 5: *continued*

Median annual incomes were the fourth highest across all of the pathways, at £15,571. Relatively high individual incomes may result from the higher academic qualifications of the young people in this group, with 68% having attained a higher education qualification. Those without higher education qualifications were also fairly well qualified, with 17% of the young people having A-Levels as their highest academic qualification.

The highest proportions of young people following this pathway were in Scotland (15%) and London and southeast England (16%). Notably, in Wales this figure is only 6%. Although the PRS in London and the southeast is comparatively large, in Scotland it only accounts for 9% of households. This implies that renters following this pathway may face particularly constrained choices in Scotland as demand for the PRS increases.

The scenario facing private renters in 2020

Young people following the *young professional renters* pathway will not face a remarkably different scenario in 2020. Traditionally they have remained in the PRS throughout their 20s, and this will continue to be the case in 2020. One difference in 2020 will be the anticipated reduction in the number of students following this pathway. Changes in higher education fee structures will result in fewer young people choosing to attend university, with more students attending local institutions and therefore remaining in the parental home during their studies.

Perhaps the most significant change for these young people in 2020 will be increased levels of competition for PRS accommodation from young people unable to access owner-occupation or social rented accommodation. However, *young professional renters* have relatively high incomes and will therefore be fairly well placed to compete for PRS properties. The ability of these young people to compete in the PRS is likely to be significantly affected by regional variations in the PRS market. For example, the relatively small size of the PRS in Scotland might mean that an influx of young people into this sector will increase competition, driving rental prices higher and limiting young people in this pathway to slightly lower-quality housing.

Pathways tending to end in social renting

Three main pathways into social renting emerged from analysis of British Household Panel Survey data and in-depth interviews with young people across the UK. While fewer young people followed pathways into social renting than any other tenure, a significant number of young people were still accommodated in social rented accommodation by the time they were 30. The most frequently followed pathway into social housing was to wait *in the social queue*. Young people in this pathway tend to stay in the family home (which is social rented) until they are able to access their own social rented tenancy, mostly as individuals. A second pathway into social housing is the *lone parent* pathway, wherein young women leave the family home and enter social housing soon after or immediately before having a child. The third main pathway into social renting is followed by *social renting families*. These young people have very similar experiences to *lone parents*, the significant difference being that they form couples and enter their own social rented tenancy as they

start their families. Brief descriptions of each of these pathways into social renting are given below, along with estimates of their population sizes in 2008 and 2020. The justification for projected changes in population size is given in the discussion of the 2020 scenario that follows these descriptions. In addition to the three main pathways into social renting, it is important to recognise that a minority of young people following pathways dominated by other tenures also secured social rented accommodation or remained in the social rented parental home.

Pathway 6: in the social queue

2008 population: **1 million** | 2020 population: **1.3 million**

In 2008 approximately **1 million young people** (aged 18–30 years) followed this housing pathway. Their parental home is in the social rented sector and just over half remain there over the ten-year period, while some leave and then return. In total, 640,000 young people following this pathway were in the parental social rented home in 2008. Those who do exit the parental home enter their own tenancies in the social rented sector (15%) or the Private Rented Sector (9%). Among these young people, there is slightly more couple- and family-formation after ten years when compared with the *stay at home to own* pathway.

Approximately 23% of these young people had A-Levels; a further 37% had only GCSEs, while 26% had no formal qualifications. These low levels of education translate to the lowest median income of any pathway within this analysis, at £8,768. Given these low incomes, periods spent in unemployment, and lower access to social and economic capital via their parents, accessing alternative, less affordable tenures will be difficult for the majority of this group. The proportion of young people in this pathway is higher in Scotland and Wales than in England.

Pathway 7: lone parents

2008 population: **680,000** | 2020 population: **590,000**

In 2008 approximately **680,000 young people** (aged 18–30 years) followed this housing pathway. Almost all of the young people on this pathway are women (96%), making it the only clearly gendered pathway. These young women tend to leave the family home and enter social rented housing, often soon after or just before having a child. In 2008, 380,000 young people following this route were in social rented accommodation. The vast majority of these young people are not in couples. Some young people exit into the PRS (18%) and, in 2011, interviews with these young people revealed that much greater use is being made of the PRS. Interviews indicated that much of the movement within and between sectors is driven by patterns of relationship formation and breakdown that are often short-lived.

Economic inactivity was a prominent feature among this group of young people, although *early nesters* and *social renting families* had similarly high levels of inactivity. Educational attainment for this group is slightly higher than those *in the social queue*; 59% of lone parents have GCSEs compared to 37% percent of those *in the social queue*. This may lend this group its slightly higher median annual income of £13,065. However, given that these young women spend a large proportion of their time

Pathway 7: *continued*

as single-parent households with highly variable employment histories, their household incomes are relatively low, increasing their dependency on welfare benefits.

This group aspire to more stable tenures. However, due to the lack of social housing, some lone parents are forced to enter into the PRS. In order to gain access to social housing, some young people reported declaring themselves as homeless, and subsequently submitted to live in hostels and temporary accommodation until they were rehoused. Wales has the highest proportion of young people following this pathway: 9% compared with 6% for England and 5% for Scotland. Furthermore, London and southeast England have substantially lower levels of young people following this pathway, at 2%.

Pathway 8: social renting families

2008 population: **440,000** | 2020 population: **360,000**

In 2008 approximately **440,000 young people** (aged 18–30 years) were *social renting families*, making it one of the least followed pathways. These young people tend to leave the parental home and most (380,000) enter into their own social rented tenancy as they start their families. A minority (14%) will enter the Private Rented Sector. Many of these young people are married with children. Once these young people have entered a social rented tenancy there is little tenure movement. Accessing the social rented sector is difficult for young people in some regions of the UK, and consequently some young people have developed alternative access strategies. For example, some young interviewees reported declaring themselves as homeless, while others temporarily split with their partner in order to access social housing as a single parent.

This group has the lowest levels of education, with 36% stating they had no formal qualifications, although nearly half had GCSEs. In comparison to other pathways in the social rented sector, median annual incomes are relatively high, at approximately £14,424.

Given the different strategies developed by individuals to access the social rented sector it can be assumed that this is a preferential tenure for most of these young people. Some young people did, however, indicate a long-term preference towards owner-occupation in order to leave their children something after death. These young people also share aspirations to improve their living conditions, prompted by increasing demands on living space as families grow, leading some to want to rent privately; however, others consider this to be a less stable tenure.

Wales has the highest proportion of young people who follow this pathway (8%), while Scotland has 5% and England (including London and southeast England) has the lowest proportion at 4%.

The scenarios facing social renters in 2020

The primary challenge facing young people seeking to live in social rented housing in 2020 will be a heightened difficulty in gaining access to the sector. Annual levels of affordable housing need are not expected to decline (Semple, 2007; Bramley, *et al.*, 2010; Holmans and Monk, 2010) and, as a result of cuts

in the capital budget for social housing, the proportion of social rented sector accommodation across the UK is expected to reduce. Moreover, some of the social housebuilding in England will be delivered at 80% of market rents, which will be largely inaccessible to these young people due to their relatively low incomes. The key message for 2020 is that competition for the limited supply of social housing will increase. There are likely to be three key implications of this scenario: more young people will stay at home for longer, more young people will live in the PRS, and some young people will pursue alternative routes into social rented accommodation.

A proportion of young people who would previously have secured their own social rented tenancy (e.g. *lone parents* or *social renting families*) are likely to be frustrated by the lack of affordable social housing and will be forced to remain in the parental home for longer. Despite this general trend, some young people may be forced to leave this tenure as a result of changes to non-dependent deductions for housing benefit payments (CIH, 2010). In some cases the exit may be unplanned, increasing the likelihood of the young people following more *chaotic* pathways. In addition to those who may be forced to leave, many others (e.g. *lone parents*, those *in the social queue*, *social renting families*) will also choose to enter the PRS, perhaps because of the length of time it may take to secure their own social rented tenancy.

Due to recent changes to the shared accommodation rate, many of the young people who enter the PRS are likely to move into shared living, and as a result of their lower incomes are likely to be forced into the lower end of the PRS. They are also likely to be affected by a reduction in LHA to cover only the lowest third of local rents, limiting their housing options (particularly in areas such as London and the southeast of England). An increasing number of young people are also likely to have to pay the shortfall between the levels of benefit and rent. Furthermore, if not adjusted, over time rental inflation will erode the choice of properties available to rent, with by far the most significant impact of this occurring in London. Hence, by 2020, these young people will have a much smaller choice of properties and locations across all sectors.

The final implication of a limited supply of social rented accommodation is expected to be an increase in the use of alternative mechanisms for accessing the sector. Young interviewees, many of whom were already witnessing these challenges, explained that they would declare themselves homeless in order to secure a social rented home. However, in England the homelessness duty can be discharged into the PRS, meaning that this will not necessarily result in a social housing tenancy.

A chaotic pathway

In addition to the eight largely tenure-based housing pathways already discussed, in-depth interviews with young people revealed a ninth pathway that is not associated with a discrete final tenure. In this *chaotic* pathway young people are likely to have been homeless and will most probably have spent time in the Private Rented Sector *and* the social rented sector. This group of young people are likely to face difficulties retaining their tenancies. A brief description of this pathway is given below, along with estimates of the population size in 2008 and 2020. The full justification for the projected change in population size is given in the discussion of the 2020 scenario that follows this description.

Pathway 9: chaotic

2008 population: **75,000** | 2020 population: **81,000**

75,000 young people between the ages of 16 and 24 were estimated to have experienced homelessness in the UK across a 12-month period in 2006/07 (Quilgars, *et al.*, 2008). The discussion below illustrates that, in the light of predicted changes, more young people are likely to enter this pathway by 2020. The nature of this pathway, which is characterised by frequent moves and periods of homelessness, means that data are not available from the British Household Panel Survey; however, interviews were conducted with 15 young people whose housing pathways would fit this model.

The housing pathways of these young people are marked by repeated entry and exit into the social rented sector and Private Rented Sector. Initial exits from the parental home are often into homelessness, most frequently caused by family conflict. Young people appear to exit homelessness into either the social or Private Rented sectors, with subsequent moves normally unplanned. These moves are prompted by affordability problems and antisocial behaviour, often associated with pre-existing alcohol, drug and/or mental health issues. Further episodes of homelessness among this group are sometimes hidden, with young people 'sofa-surfing' with friends or extended family. Young people in this pathway have low levels of education, and are predominantly unemployed. Employment is viewed as a key step toward a more stable pathway.

Young people in this pathway aspired to stability, with many believing that this is best achieved through housing in social rented accommodation. Some young people are prepared to enter into the Private Rented Sector if they find employment; however, this sector is viewed as a mobile tenure and the young people are reluctant to move around further.

The scenario facing *chaotic* households in 2020

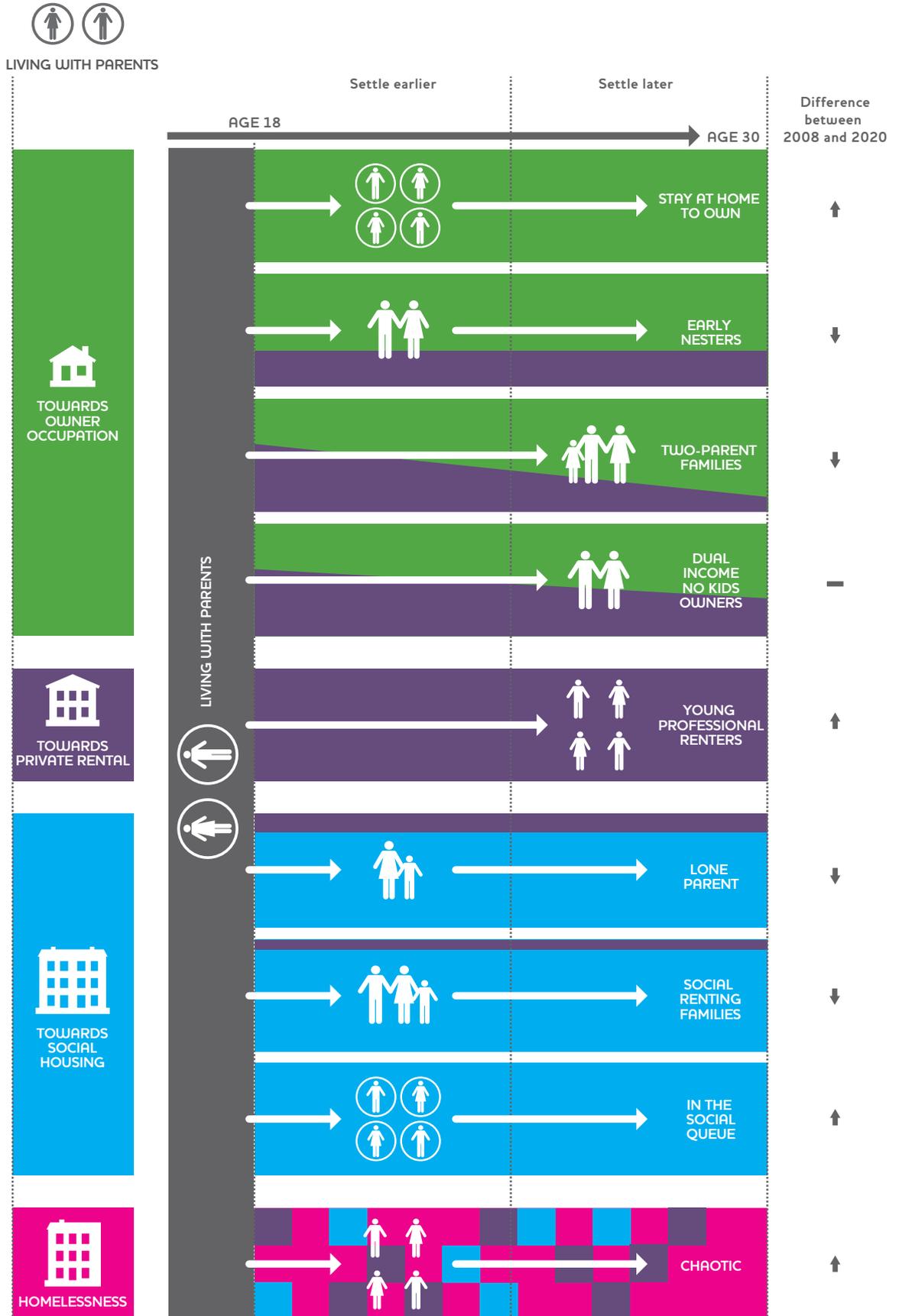
It is anticipated that more young people, such as those who are required to leave the family home due to non-dependent deduction changes and those who face considerable shortfalls between LHA and rent payments, will follow this pathway in 2020. One of the key challenges young people in the chaotic pathway will face is that causes of youth homelessness, such as family relationship breakdown, are likely to persist – and even worsen – with less public funding being allocated to prevention and support.

Young people in the *chaotic* pathway are also increasingly likely to be accommodated in Private Rented Sector accommodation. This scenario will emerge because access to the social rented sector is likely to worsen over the next decade, while local authorities in England – and potentially elsewhere in the UK – will allow the homeless duty to be discharged into the Private Rented Sector. Furthermore, these young people are likely to be restricted to the lowest echelons of Private Rented Sector accommodation because their incomes are low and changes to welfare benefit entitlements may well leave them with a shortfall between LHA and rent costs.

The final challenge that will face these young people in 2020 is increased difficulty maintaining their tenancies, as Supporting People funding has recently been reduced. Furthermore, in England and Scotland the funding is no longer ring-fenced, which means that budgets for housing-related support will be significantly lower. Consequently, it is expected that fewer young people will exit this pathway, with a greater proportion of tenancies failing.

YOUNG PEOPLE (AGED 18–30) AND THEIR HOUSING SCENARIOS

THE NINE PATHWAYS



4 THE HOUSING MARKET IN 2020: KEY CHALLENGES FACING YOUNG PEOPLE

Reflecting on the projected changes across all of the youth housing pathways enables a detailed picture to be developed for the youth housing market in 2020.

For each of the major tenures, we describe the nature of likely housing demand from young people. Then, drawing on discussions with key stakeholders and young people, the emergent policy challenges are discussed.

Owner Occupation

The previous chapter concluded that all four main groups of young people who took pathways into home ownership in 2008 (*DINKOs*, *stay at home to owners*, *two parent families* and *early nesters*) will face significant difficulties in accessing such tenure in 2020. By contrast, it was predicted that more young people will remain in parental owner-occupied accommodation. Using trend-based projections of tenure change we are able to predict the scale of reduction in owner-occupation among young people, and we can quantify the increase in the number of young people living in the parental owner-occupied home. Full details on this methodology can be found in Appendix I.

We predict that the total number of young people owning their own properties in 2020 will be 1.3 million, which represents a *decrease of approximately 1.1 million* when compared with 2008. Conversely, we predict that the number of young people living with parents in owner-occupied accommodation will be 3.7 million, which equates to an *increase of approximately 550,000* when compared to 2008.

The key policy challenges

Despite the anticipated decline in levels of owner-occupation among young people, when interviewed they generally still aspired to home ownership

in the long term. In the first instance, policy makers must consider whether interventions should be developed to meet these aspirations. If there is no intervention to improve access to owner-occupation, many more young people will enter and remain in the PRS throughout their twenties and into their thirties. While this is perhaps unproblematic in itself, these young people are likely to be competing for PRS properties against young people on lower incomes who cannot access social housing. This could lead to many lower-income households facing exclusion from the housing market altogether. Consequently, policy makers might seek to improve access to owner-occupation in order to ensure suitable levels of movement out of the PRS, thereby freeing up accommodation for households on lower incomes.

Analysis of the different experiences of young people revealed that families who cannot access owner-occupation will be particularly challenged if they must enter the Private Rented Sector. Families were concerned that they needed stability for their children and yet would have little control over the termination of any PRS tenancy. This raises the particular policy challenge of ensuring families have access to suitable and secure accommodation, which might mean intervening in the PRS, but might also mean targeting home ownership interventions at families. Any such interventions would need to be nuanced, as there is a considerable spectrum of incomes among young families.

Private rented sector

Our analysis of changes in young people's housing pathways into 2020 has indicated that one of the most prominent challenges faced by the future housing market will be an increased and varied demand on the Private Rented Sector by young people. Using trend-based projections of tenure change we are able to predict the scale and nature of this increase in demand.

We predict that the total number of young people living in their own PRS tenancies in 2020 will be 3.7 million, an increase of approximately 1.3 million young people when compared with 2008. It is likely that a three-tier model of demand will emerge based upon the median incomes of the young households.¹

First tier

Will consist of young households with median incomes of more than £28,000. In 2020, approximately 1.55–2.26 million young people will populate this tier of the PRS consisting of:

- 840,000 *young professional renters* who are sharing (up 300,000 from 2008)
- 710,000 *DINKOs* (up 250,000 from 2008)
- From 0 to 380,000 *two parent families* (potentially up 130,000 from 2008)
- From 0 to 240,000 *early nesters* (potentially up 80,000 from 2008)
- From 0 to 90,000 *social renting families* (potentially up 30,000 from 2008)

Second tier

Will consist of young households with median incomes of £14,000–£19,000. In 2020, approximately 1.05–1.76 million young people will populate this tier of the PRS consisting of:

- 720,000 *young professional renters* living alone (up 260,000 from 2008)
- 330,000 *stay at home to owners* (up 120,000 from 2008)
- From 0 to 380,000 *two parent families* (potentially up 130,000 from 2008)
- From 0 to 240,000 *early nesters* (potentially up 80,000 from 2008)
- From 0 to 90,000 *social renting families* (potentially up 30,000 from 2008)

Third tier

Will consist of young households with median incomes of £13,000 or less. In 2020 approximately 400,000 young people will populate this tier of the PRS consisting of:

- 190,000 *lone parents* (up 70,000 from 2008)
- 140,000 young people *in the social queue* (up 50,000 from 2008)
- Up to 81,000 *chaotic young people*

In addition to those young people living independently in the PRS, we predict that the total number of young people living with their parents in the PRS will be 400,000, *an increase of approximately 170,000 young people*. Adding this to the increase in demand for independent PRS accommodation, the total increase in all young people living in the PRS will be approximately 1.5 million.

The key policy challenges

Stakeholders and young people both initially commented that, while greater demand for PRS accommodation will create many challenges, the Private Rented Sector also offers key benefits, such as the flexibility to move at relatively short notice and enabling young people to live in more desirable locations. Beyond these positive attributes of the PRS, three key challenges emerge as a result of increased pressure on the sector: the accommodation of families in a stable environment; meeting the needs of vulnerable and low-income young people; and leadership on the nature of the offer in the Private Rented Sector.

One of the key emerging challenges is the increase in the number of young families entering the Private Rented Sector in all tiers. Many of the young families interviewed felt that the PRS is not well suited to the needs of families. They claimed that uncertainty about tenancy length made it difficult to put down roots, and that while longer tenancies might be available they are rarely offered. Despite these challenges, young families were quite clear that being 'trapped' in the PRS would not delay them having children. The policy challenge will be to ensure that, where young families are living in the PRS, they are able to secure greater stability – perhaps through longer tenancies and greater certainty about rent prices.

The third tier of young people in the PRS is largely made up of very vulnerable young people as new entrants. Many of the young people interviewed raised concerns about landlords not accepting young people who are in receipt of housing benefit; they were also very worried about the

freedom landlords have to increase rents, making accommodation unaffordable. Many of these young people are subject to the restrictions of the shared accommodation rate, yet they demonstrated relatively little demand for shared forms of accommodation, a finding that contradicts Westminster government policy. Stakeholders commented that vulnerable young people will require more support in the PRS, and that greater effort may need to be made to facilitate access to suitable PRS accommodation. While these are clearly challenges, there is also evidence from stakeholders that some vulnerable young people may benefit from accessing PRS accommodation, which offers greater flexibility relative to the social rented sector.

In light of the significant increase and diversity in the demand placed on the PRS, stakeholders were concerned about the lack of political guidance and support for the sector, and the lack of a clear institutional framework. Stakeholders and young people also felt that the rights and responsibilities of both tenants and landlords were unclear, and that, while landlords had a clear route to regain their property from a problem tenant, young people were less clear about mechanisms of redress in cases where, for example, a landlord had retained their bond. The challenge for policy makers will be to achieve a balance between the regulation of the PRS and the need to ensure supply is not affected.

Social rented sector

Our analysis of changes in young people's housing pathways into 2020 has indicated that, despite continued demand for social rented accommodation, the proportion of young people accommodated in the social rented sector is likely to decline. Using trend-based projections of tenure change, we are able to quantify this reduction. We predict that the total number of young people living in their own social rented tenancies in 2020 will be 780,000, which represents a *decrease of approximately 360,000* when compared with 2008. Conversely we predict that the number of young people living with parents in social rented accommodation will be 870,000, which equates to an *increase of approximately 170,000* from 2008.

The key policy challenges

Policy makers will be tasked with determining appropriate responses to the reduction in the number of young people entering social rented accommodation. Policy makers will need to consider whether more social housing should be delivered to meet the needs of young people who have, until 2008, taken pathways into social rented accommodation. Or should policies promote the use, and intervene in the nature, of the PRS?

Families constitute one group of young people who will be pushed into the PRS due to difficulties accessing social rented accommodation, and, just as for those families squeezed out of home ownership, the PRS does not currently provide the stability that most families seek. Interventions must either improve access to social rented accommodation or improve the stability offered by the PRS.

Individual young people with very low incomes (those *in the social queue*) will also have to find accommodation in the Private Rented Sector, where they will be very weak competitors and find themselves restricted to the lowest tier. These young people demonstrated relatively little demand to live in shared forms of accommodation, a finding that contradicts Westminster government policy on the shared accommodation rate. The challenge will be for policy

makers to either influence the aspirations and expectations of these low-income young people, or to intervene to ensure that they are able to access social rented accommodation.

Chaotic young people and *lone parents*, who are likely to have high support needs, will face difficulties accessing social rented accommodation. While most vulnerable young people preferred the security that social rented accommodation could offer, they felt that there was not enough choice in relation to its location. Therefore, the challenge is not simply to provide more social housing, but to provide it in a range of locations. Equally, greater stability could be offered in the PRS, making it a more attractive offer to these vulnerable young people.

5 RESPONDING TO THE HOUSING CHALLENGES FACING YOUNG PEOPLE

Key stakeholders and young people from across the UK took part in discussion groups in order to identify possible responses to the challenging circumstances young people are likely to face in 2020. This chapter presents and develops their proposed responses.

The key message to emerge from stakeholders was that the nature of the challenges facing young people will require fundamental changes to the UK housing system. Stakeholders argued that young people were particularly vulnerable in a badly functioning housing system due to their lack of resources and/or opportunity.

This chapter discusses the direction such reform might take in order to rectify the failings of the UK housing system. The push of an additional 1.5 million young people toward the Private Rented Sector created an overwhelming focus on improving private renting, although stakeholders also recognised the crucial importance of increasing housing supply.

The UK housing system and home ownership

Our findings clearly underline the links between a long-running shortage of new housing supply and affordability. This shortage of housing supply affects both house prices and private sector rents. This reflects the findings of earlier studies that the UK model of home ownership is under strain and is driving intergenerational inequality (Stephens, 2011). Stakeholders recognised that specific initiatives to enable young people to access home ownership could exacerbate the affordability problems they were created to address. For example, shared equity schemes were largely dismissed by both stakeholders

and young people as undesirable, complicated, often expensive and likely to inflate house prices. The same was said to be true of interventions designed to loosen up the availability of mortgage finance by, for example, increasing loan-to-value ratios of mortgages. While such policies may help some young people in the short term, without a sustained increase in housing supply they will only increase problems of affordability in the long term.

In addressing the problem of high house prices and access to home ownership, stakeholders focused on issues such as capturing the uplift in land values from residential planning permission and small-scale solutions such as community land trusts. Small-scale interventions (e.g. community land trusts) are promoted in Welsh government policy, and there are also examples of successes in Scotland and some rural parts of England. However, Hull, *et al.* (2011) argue that such approaches to delivering new homes are time-consuming and unlikely to be of a scale sufficient to tackle the housing shortage. It is sobering to note that a far higher rate of housing supply is needed just to maintain current levels of housing affordability (as measured by the ratio of incomes to house prices) (Stephens, 2011). Stephens (2011) also notes that even if supply were maintained at the pre-recession average of 150,000 new units per year, affordability would still deteriorate.

The consequences of failing to improve housing supply by 2020 go far beyond the frustrations of a group of aspiring young homeowners. There will be vast competition for PRS housing that leaves many lower-income and vulnerable households marginalised in the Private Rented Sector. Moreover, young families with a need for stable housing will be living in the PRS, where they face uncertainty about the stability of their tenancies. This overwhelming pressure on the Private Rented Sector led stakeholders to focus their suggestions for reform predominantly on that sector.

Improving the rented housing offer: the Private Rented Sector

For many young people, the PRS offers key benefits and opportunities that are not so apparent in other tenures. The flexibility of short-term tenancies allows for mobility, and the dispersed location of much of the stock provides access to more desirable locations than might be possible with other tenures. Nevertheless, the sector was viewed by some young people as having problems. These included the lack of affordability, particularly if trying to save for a deposit as well as paying rent. Young people also identified problems of stock availability and condition. The sector was considered by some younger people to be unsuitable for families with young children, where the short-term nature of many tenancies created insecurity over issues such as schooling and the expense of frequent moves.

A new deal for the PRS

A key message from stakeholders was that there is a need for strong political leadership in order to create the momentum for change within the sector. By 2020, the sector must be able to suitably house more diverse ranges of groups, particularly more young families and more economically/socially marginalised young people. In the first instance, stakeholders felt that this should be underpinned by a change in the way that the sector is viewed both by politicians and by young people themselves. A clearer focus on the value of the sector for young people is important in order to counter general perceptions of this tenure as a last resort, or an inferior option for

those who cannot afford owner-occupation. In part this could be achieved by incorporating earlier education about the housing system and housing choices into formal and informal educational settings (Kelly, 2010; Terry, 2011).

There was a strong view from young people and stakeholders that the sector was 'not working' and needed a clear direction of change. The reforms suggested by stakeholders were largely driven by the increasing need for the Private Rented Sector to house young families, lower-income households and more vulnerable households. They recognised the different needs of mobile *young professional renters*, for whom the sector offered the desired flexibility, as well as the greater stability required by young families and vulnerable households who will increasingly be pushed towards private renting for longer periods of time. Problems with the Private Rented Sector were felt to be particularly acute in rural areas and parts of the country with a limited PRS stock.

The two most pressing issues raised by stakeholders were: creating sufficient supply to meet demand, and achieving a stable PRS market. These issues are inherently linked, raising questions around the function the Private Rented Sector plays in the wider market and who it is intended to house.

Creating sufficient supply

Two key mechanisms were identified as having the potential to increase the supply of PRS housing: institutional (or private) investment and tax advantages. These must both be seen in the wider context of a UK private rental sector that is dominated by individual landlords with (generally) small property holdings (Ball, 2010; Oxley, *et al.*, 2010). Some stakeholders argued that increasing demand for the PRS would attract private investment in the development of properties for rent rather than purchase (Alakeson, 2011). There are already examples of this taking place in England and Northern Ireland, while pilot schemes are being monitored as part of the English housing strategy (CLG, 2011a). It was recognised that some developers have recently become 'accidental landlords' as a result of difficulties in selling properties. Building-to-rent may become more common in the years up to 2020, and could be encouraged by planning authorities working collaboratively with developers and lenders. In particular, this form of supply might focus on meeting the needs of families entering the Private Rented Sector. However, some commentators have suggested that the inter-relationship between housing tenures means that such gains could easily dissipate with easier access to home ownership, for example (Scanlon and Whitehead, 2011). A cautionary note on the role of institutional investors also emerges from key studies of the PRS (Oxley, *et al.*, 2010; Rugg and Rhodes, 2008). It is argued that the right conditions can attract some institutional investment, but even in countries where such investment is substantial, more than 60 per cent of the stock is likely to be owned by individual investors (Oxley, *et al.*, 2010). And there is no guarantee that institutional investment alone would improve other issues within the Private Rented Sector, such as security of tenure, management or quality. Hence, individual investors must also be incentivised to bring forward PRS supply.

The most prominent mechanism for incentivising individuals to bring forward private rented accommodation appears to be the introduction of a taxation advantage. For example, Oxley, *et al.*, (2010) describe how individual investors in many countries with larger Private Rented Sectors are permitted to use losses from rental income to reduce the tax on another income. The Westminster government has recently introduced changes to Stamp Duty Land Tax to help investment in private rented accommodation across the UK.

While these changes favour those investors who purchase multiple properties rather than necessarily supporting individuals, it provides an indication of the willingness of the Westminster government to intervene through tax systems.

There may be tradeoffs between attracting increased investment from institutional investors and private landlords. The impact of policies to promote increased investment in the PRS need to be considered across the whole of the housing system. This is particularly pertinent in relation to the extent to which new Private Rented Sector supply might crowd out increased supply in other housing tenures, such as homes for sale or social rented housing (Oxley and Haffner, 2011). It is also pertinent in relation to the quality and stability of the Private Rented Sector, and to those it houses. Within the context of increasing demand for private rented housing, whether by choice or by circumstance, evidence suggests that the Private Rented Sector is not inherently unsuitable for vulnerable households (Scanlon and Whitehead, 2011). Rather it is the extent of government support and the nature of incentives and regulation that determine how well it works for such groups.

Improving stability in the PRS

As already noted, the increased supply of new housing is important to improving housing affordability in the long term. However, new supply alone does not improve the marginal position of many young people within the housing market; nor does it automatically improve the security of tenure experienced by tenants. Many young people were significantly worried about the control a landlord has in determining when a tenancy will end. While the Rugg and Rhodes (2008) review of the PRS concluded that the existing tenancy framework is largely fit for purpose, it was written in a very different context to that of the projected housing market in 2020. The significant increase in the number of families expected to be in the sector in 2020 led many stakeholders in this study to question whether this conclusion is still valid. They generally believe that security of tenure must be addressed in order to more effectively meet the needs of families. The perceptions of private landlords do not appear to have changed radically; representatives of the sector interviewed as part of this study continue to support the current tenancy framework. However, this appears to be largely based on isolated debates surrounding the existing legal framework on security of tenure, rather than taking into account how an alternative structure of landlord incentives, together with checks and balances around tenants' interests, might function.

The complexity of the legal structure surrounding the PRS meant that stakeholders felt that government intervention either favoured the interests of the landlord or the tenant – not both. As such, both stakeholders and young people felt that relationships between landlords and tenants were generally confrontational. Existing mechanisms aimed at improving the quality of management (such as landlord registration or accreditation schemes) were seen by many landlords as a burden that did not offer them any advantages. While there are also good examples of individual schemes working to increase access and promote positive relationships between landlords and tenants in the PRS (Terry 2011; Crisis 2011a), stakeholders suggested that more fundamental reforms were needed to address the scale of the challenge.²

There was a view that government policy on the PRS was paralysed by the fear that any intervention, particularly around security of tenure, would reduce the supply of dwellings. However, international evidence points to countries such as Germany and France, which have large Private Rented Sectors despite strong security of tenure for tenants and a degree of rent control (Oxley, *et al.*, 2010). It is crucial to note, however, that these countries also tend to have clear tax advantages for private landlords (Oxley, *et al.*, 2010; Scanlon

and Whitehead, 2011). As such, Oxley, et al. (2010) argue that there is the potential for governments to trade incentives and constraints, not only to increase the supply of private rented housing, but also the conditions on which it is offered to tenants. This can include issues of who accesses the tenure (i.e. lower-income or vulnerable households), rent levels and security of tenure. It may be that such an approach would make best use of existing housing tenure structures in England and Wales, where the ability to offer longer-term tenures (e.g. assured tenancies) is available but rarely used. Tax incentives as a means to improve stability may also overcome, to some extent, the hurdle of buy-to-let lenders being unwilling to support longer-term tenancies within their mortgage terms.

Whichever road to reform is adopted, it is clear that governments need to encourage closer working relationships between representatives of landlords and tenants, with a view to designing interventions that are supported by all sides. In 2020, many more households with a need for increased stability will be seeking accommodation in the PRS. It is the needs of these households and the requirements of landlords that policy makers must now consider more fully.

Social rented sector

The decreasing proportion of young people accessing the social rented sector in 2020 generated few clear proposals for reform, although the message from stakeholders and young people was clear: low-income and vulnerable young people (*lone parents*, *young people in the social queue*, *some social renting families* and *chaotic young people*) should have the option of accessing social rented accommodation. Stakeholders unsurprisingly asserted that to meet this need more social housing must be built, and yet concerns were raised that contemporary policies affecting the sector – such as ‘affordable rents’ and the right-to-buy in England – may reduce provision further, and will at best result in no additional homes. An examination of housing policies across the UK suggests that Westminster is focusing its use of the social rented sector on those most in need, but at the same time introducing policies that will reduce levels of social housing stock. By contrast, the Scottish and Welsh governments and the Northern Ireland executive are committed to increasing the number of affordable houses, including social rented properties, but those in greatest need are less explicitly prioritised for housing.

In addition to the very general call for more social housing development, stakeholders focused on creating a more diverse portfolio of social lettings. Stakeholders were in support of making greater use of the PRS for vulnerable people, particularly as it often covers areas where social landlords do not have properties. Hence, there was overwhelming support from stakeholders for the considerable expansion of social lettings within the Private Rented Sector, i.e. where an agency facilitates access to the Private Rented Sector by acting as a broker between the landlord and tenant. Numerous examples were given of registered social landlords successfully managing private rented stock through local lettings agencies and other local arrangements for the benefit of vulnerable young people (Crisis, 2011a; Terry, 2011). Stakeholders generally agreed that in an open market, the Private Rented Sector is unlikely to meet the needs of vulnerable young people effectively. This was perceived to be particularly pertinent at a time when there is increased demand on the sector and housing benefit reforms are likely to be detrimental to the buying power of vulnerable groups. As such, there may also be scope for social landlords to consider offering more shared properties at rents comparable to local housing rates. This could widen access and provide an improved accommodation and

management offer to young people in areas where shared accommodation in the Private Rented Sector is scarce or of poor quality.

There was a consensus among stakeholders that the social rented sector should focus on the needs of vulnerable young people. When combined with proposed improvements to the PRS, it was felt that vulnerable young people would be able to exercise greater housing choices.

Vulnerable young people

The policy responses discussed above will impact on all young people, but there was much concern among stakeholders about the circumstances facing vulnerable young people, such as those following a *chaotic* pathway. In the discussions with young people, there was concern about their future prospects. Lack of employment opportunities, cutting back of support services, benefit reductions and increasing debt because of student loans have all led some young people to worry about their ability to cope. Homelessness among young people is already starting to rise, and the resources available to state and voluntary agencies to deal with the issue have declined due to cuts in public expenditure. Added to this is the lack of a new supply of housing across all sectors.

At the stakeholder interviews there was discussion of increasing use of the Private Rented Sector for vulnerable young people, but there was also an awareness that changes in the local housing allowance, increased competition from other young people, and the lack of support services meant that there was a real risk of many young people not having their needs met. Homelessness policies in England, Scotland and Wales are increasingly diverse, as the responses of each government differ according to circumstance. In Scotland, for example, homeless young people are far less likely to enter the PRS than in England. There was also discussion around the models for helping young homeless people. The shortage of appropriate accommodation will mean that the options facing homelessness agencies will be reduced. Many stakeholders feared a return to unsatisfactory bed and breakfast or hostel accommodation for homeless young people at a time when they would be trying to break away from this and find suitable mainstream accommodation. Once again, the challenges will differ across the UK, with Scottish local authorities already accommodating far more homeless people in temporary accommodation than those in England and Wales.

One of the most prominent impacts on vulnerable young people will be the changes to Housing Benefit payments, reducing payments to young people under 35 to a rate commensurate with a single room in shared accommodation. In response, stakeholders strongly advocated a greater provision of shared accommodation. It was suggested that landlords should make more innovative use of their existing stock, creating very small-scale – perhaps only two-bedroom – shared accommodation options. These stakeholder responses run contrary to the preferences of young people, who mostly felt shared accommodation was undesirable, even if welfare benefit changes made it necessary. The key message from young people was to remove the shared accommodation rate rule and give young people the same access to accommodation as adults. However, in the absence of such major policy reform, stakeholders recognised the need to make the private and social rented sectors work better for vulnerable young people. Given the marginal economic position of vulnerable young people, schemes that enable a proportion of social rents to be used as savings might also offer benefits.³

Responding to the housing challenges facing young people in 2020 requires fundamental interventions in the UK housing system. This includes responses that will tackle the shortage of housing across all tenures, our high housing costs and related problems of affordability. Policy must particularly focus on the Private Rented Sector.

6 CONCLUSIONS

This new analysis of British Household Panel Survey data, as well as interviews with young people and key stakeholders across the UK, shows that Rugg (2010) was indeed accurate in her belief that young people's housing experiences have changed as a result of the economic and social conditions in the UK.

Young people's housing pathways to 2020: challenging times

Young people's experiences are already significantly different to those described by Ford, *et al.* (2002) at the turn of the century. Furthermore, our projections show that experiences are likely to change even more as we approach 2020.

It is anticipated that the total number of young people owning their own properties in 2020 will be 1.3 million, which represents a **decrease of approximately 1.1 million** when compared with 2008. Conversely, we predict that the number of young people living with parents in owner-occupied accommodation will be 3.7 million, which equates to an **increase of approximately 550,000** when compared with 2008.

It is predicted that the total number of young people living in their own Private Rented Sector (PRS) tenancies in 2020 will be 3.7 million, an **increase of approximately 1.3 million** when compared with 2008. It is likely that a three-tier model of demand will emerge based upon the median incomes of the young households. In addition to those young people living independently in the PRS, we predict the total number of young people living with their parents in the PRS will be 400,000, an **increase of approximately 170,000** when compared with 2008.

The total number of young people living in their own social rented tenancies in 2020 is predicted to be 780,000, which represents a **decrease of approximately 360,000** when compared with 2008. Conversely we predict that the number of young people living with

parents in social rented accommodation will be 870,000, which equates to an **increase of approximately 170,000** from 2008.

The number of young people aged 18–24 following a *chaotic* housing pathway, which includes homelessness, **will increase from 75,000 in 2008 to 81,000 in 2020.**

Home ownership

In 2008, young people generally entered home ownership by following one of four pathways. Most (2.9 million young people) remained in the family home throughout their twenties and into their early thirties in order to save the capital to pay the deposit on a mortgage (the *stay at home to owners*). Approximately 560,000 young people left the parental home and entered shared accommodation in the PRS before forming a couple and entering owner-occupation (*dual income, no kids owners*). The two remaining pathways into home ownership involved family formation before the age of 30. The key difference between these two family formation pathways is that the 330,000 *early nesters* generally left the family home and formed a family far earlier than the 720,000 *two parent families*. A proportion of other pathways followed by young people also ended in home ownership (810,000 young people), or the owner-occupied parental home (250,000 young people).

Each of these groups of aspiring young homeowners will face the very real prospect of continuing high deposits and a general squeeze on incomes, resulting in limited access to home ownership. As a result, more young people will stay at home for longer and parents will play an increasingly important role in facilitating access to owner-occupation. For the very many young people who choose not to remain at home, they will enter and remain in the Private Rented Sector into their early 30s. Higher-income households will be relatively free to choose their PRS accommodation, while those earning less will be restricted to the lower echelons of the sector. Notably, more young families will be forced to live in the PRS, and these families felt that the sector was not ideal because of the lack of security and stability it offers.

Private renting

In 2008 one main pathway into private renting emerged. Approximately 1 million *young professional renters* left the parental home and entered the Private Rented Sector, where they remained for some considerable time. These young people shared accommodation and most had attained qualifications higher than A-level standard. Notably, a significant minority of young people following pathways dominated by other tenures also became private renters (1.4 million young people), hence the total number of private renters in 2008 was much greater than the total number of *young professional renters*.

Young people will continue to follow the *young professional renters* pathway in 2020, and their circumstances will remain relatively unchanged. One difference in 2020 will be an anticipated reduction in the number of students living in the PRS, but the most significant change for these young people is likely to be increased levels of competition for PRS accommodation. Young people unable to access home ownership (*stay at home to owners*, *DINKOs*, *early nesters*, *two parent families*) will newly enter and spend longer in the PRS, and there will also be increased competition from households unable to secure accommodation in the social rented sector (*young people in the social queue*, *lone parents*, and *social renting families*). There will also be an increase in demand from young people following a *chaotic* housing pathway.

Social renting

In 2008, young people followed three main pathways into social renting. The most frequently followed pathway was to wait *in the social queue* (640,000 young people). These young people tend to stay in the family home until they are at least 30, at which point they are able to access their own social rented tenancy, mostly as individuals. A second pathway into social housing was the *lone parent* pathway, whereby 380,000 young women left the family home and entered social housing soon after or immediately before having a child. A third pathway into social renting was followed by 380,000 young people as *social renting families*. These families have very similar experiences to *lone parents*, but the significant difference is that they form couples and enter their own social rented tenancy as they start their families. Finally, a proportion of other pathways followed by young people also ended in social renting (380,000), or the social rented parental home (60,000).

The key message for young people about social rented housing in 2020 is that competition for the already limited supply will worsen. Consequently, more young people will stay at home for longer, while others will be forced to live in the PRS, often in lower-end accommodation as a result of their relatively low incomes. The final implication of a limited supply of social rented accommodation is an expected increase in the number of young people who would deliberately become homeless in order to secure a social rented home.

Chaotic housing pathway

In addition to the eight tenure-based housing pathways, a ninth pathway existed in 2008 that was not associated with any particular outcome. In this *chaotic* pathway (followed by 75,000 16–24 year olds), young people are likely to have been homeless at some point, and will most probably have spent time in the Private Rented Sector *and* the social rented sector. While predictions are more challenging for this group given the scarcity of data, we predict that approximately 81,000 18–24 year olds will follow this pathway in 2020 and, like many other young people, they are increasingly likely to be accommodated in the Private Rented Sector, where they will only be able to afford lower-end accommodation. These vulnerable young people will face difficulties maintaining their tenancies as a result of a reduction in funding for housing-related support services.

Responding to the housing challenges facing young people

The key message to emerge from stakeholders and young people alike was that the challenges facing young people in 2020 will require fundamental changes to the UK housing system. Stakeholders argued that young people were particularly vulnerable in a badly functioning housing system due to their lack of resources and/or opportunity.

The UK housing system and home ownership

This study's findings reinforce our knowledge that the shortage of new housing supply in the UK results in high house prices and high private-sector rents (Stephens, 2011). Stakeholders and young people alike recognised that specific initiatives to enable young people to access home ownership (such as shared equity schemes) could exacerbate the affordability problems they were created to address. While such policies may help some young people in the short term, without a sustained increase in housing supply they will only increase problems of affordability in the long term.

In addressing the problem of high house prices and access to home ownership, stakeholders focused on issues such as capturing the uplift in land values from residential planning permission and small-scale solutions such as community land trusts. However, Hull, *et al.* (2011) argue that small-scale approaches to delivering new homes such as these are time-consuming and unlikely to be sufficient to tackle the housing shortage. A far higher rate of housing supply is needed even to maintain current levels of housing affordability (Stephens, 2011).

The consequences of failing to improve housing supply by 2020 go far beyond the frustrations of a group of aspiring young homeowners. There will be huge competition for PRS housing, leaving many lower-income and vulnerable households marginalised in the Private Rented Sector. Moreover, many more young families with a need for stable housing will be living in the PRS. This pressure on the Private Rented Sector led stakeholders to focus their suggestions for reform predominantly on that sector.

Improving the rented housing offer: the Private Rented Sector

For many young people, the PRS offers key benefits and opportunities that are not so apparent in other tenures, such as the flexibility of short-term tenancies and access to particular locations. Nevertheless, the sector was viewed by some young people as having problems of affordability, availability and quality. There is a clear case for reform of the sector.

A new deal for the PRS

A key message from stakeholders was the need for strong political leadership to create the momentum for change within the sector. In the first instance, stakeholders felt that there needed to be a change in the way the sector is viewed by politicians and by young people themselves. In part, this could be achieved by incorporating earlier housing education into formal and informal educational settings (Kelly, 2010; Terry, 2011). The two most pressing issues raised by stakeholders were creating sufficient supply and achieving a stable PRS market.

Creating sufficient supply

Two key mechanisms were identified as having the potential to increase the supply of PRS housing: institutional (or private) investment and tax advantages. Some stakeholders argued that increasing demand for the PRS would attract private investment in the development of properties for rent, and that there are already examples of this taking place in England and Northern Ireland (CLG, 2011a). Building-to-rent may become more common in the years up to 2020 and could be encouraged by planning authorities working collaboratively with developers and lenders. In particular, this form of supply could focus on meeting the needs of families entering the Private Rented Sector. However, a cautionary note on the role of institutional investors also emerges from key studies of the PRS (Oxley, *et al.*, 2010; Rugg and Rhodes, 2008). It is argued that the right conditions can attract some institutional investment, but even in countries with substantial institutional involvement, more than 60 per cent of the stock is likely to be owned by individual investors (Oxley, *et al.*, 2010). Hence individual investors must also be incentivised to bring forward PRS supply.

The most prominent mechanism for incentivising individuals to bring forward private rented accommodation appears to be the introduction of taxation advantages. The Westminster government has recently introduced changes to Stamp Duty Land Tax to boost investment in private rented accommodation across the UK. While these changes favour those investors

who purchase multiple properties rather than necessarily supporting individuals, it provides an indication of the willingness of the Westminster government to intervene through the tax system.

There may be tradeoffs between attracting increased investment from institutional investors and private landlords. The impacts of policies to promote increased investment in the PRS need to be considered across the whole of the housing system. This is particularly pertinent in relation to the extent to which new Private Rented Sector supply might crowd out increased supply in other housing tenures, such as homes for sale or social rented housing (Oxley, *et al.*, 2011).

Improving stability in the PRS

New housing supply alone does not improve the marginal position of many young people within the housing market; nor does it automatically improve the security of tenure experienced by tenants. While the Rugg and Rhodes (2008) review of the PRS concluded that the existing tenancy framework is largely fit for purpose, it was written in a very different context to that of the projected housing market in 2020. The significant increase expected in the number of families accommodated in the sector in 2020 led many stakeholders in this study to question whether their conclusion is still valid. The perceptions of private landlords do not appear to have changed radically; representatives of the sector interviewed as part of this study continue to support the current tenancy framework. However, this appears to be largely based on debates surrounding the existing legal framework, rather than taking into account how an alternative structure of landlord incentives, together with checks and balances around tenants' interests, might function.

Stakeholders and young people alike felt that relationships between landlords and tenants were generally confrontational. Existing mechanisms aimed at improving the quality of management (such as landlord registration or accreditation schemes) were seen by many landlords as a burden that did not offer them any advantages. While there *are* good examples of individual schemes working to increase access and promote positive relationships between landlords and tenants in the PRS (Terry 2011; Crisis 2011a), stakeholders suggested that more fundamental reforms were needed.

There was a view that government policy on the PRS was paralysed by the fear that any intervention would reduce the supply of dwellings. Oxley, *et al.* (2010) argue that there is the potential for governments to trade incentives and constraints, not only to increase the supply of private rented housing, but also the conditions on which it is offered to tenants. These can include issues of who accesses the tenure (i.e. lower-income or vulnerable households), rent levels and security of tenure. It may be that such an approach would make best use of existing UK housing tenure structures, where the ability to offer longer-term tenures (such as assured tenancies) is available but rarely used. Tax incentives as a means to improve stability may also overcome, to some extent, the hurdle of buy-to-let lenders being unwilling to support longer-term tenancies within their mortgage terms.

Whichever road to reform is adopted, it is clear that governments need to encourage closer working relationships between representatives of landlords *and* tenants with a view to designing interventions that are supported on both sides. In 2020, many more households with a need for stable conditions will be tenured in the PRS. It is the needs of these households and the requirements of landlords that policy makers must now consider more fully.

Social rented sector

The decreasing proportion of young people accessing the social rented sector in 2020 generated few clear proposals for reform, although the message from stakeholders and young people was clear: low income and vulnerable young people (*lone parents*, young people *in the social queue*, some *social renting families* and *chaotic* young people) should have the option of accessing social rented accommodation. Stakeholders unsurprisingly asserted that to meet this need more social housing must be built, and yet concerns were raised that contemporary policies affecting the sector (such as 'affordable rents' and the right-to-buy in England) may reduce provision further and will at best result in no additional homes.

In addition to the very general call for more social housing development, stakeholders were in support of making greater use of the PRS for vulnerable young people, particularly as it often covers areas in which social landlords do not have properties. Hence there was overwhelming support from stakeholders for the considerable expansion of social lettings within the Private Rented Sector, i.e. where an agency facilitates access to the Private Rented Sector by acting as a broker between the landlord and tenant. Stakeholders generally agreed that, in an open market, the Private Rented Sector is unlikely to meet the needs of vulnerable young people effectively. As such, there may also be scope for social landlords to consider offering more shared properties at rents comparable to local housing rates.

There was a consensus among stakeholders that the social rented sector should focus on the needs of vulnerable young people. When combined with proposed improvements to the PRS, it was felt that this would enable vulnerable young people to exercise greater housing choices.

Vulnerable young people

The policy responses discussed above will impact on all young people, but there was much concern among stakeholders about the circumstances facing vulnerable young people (such as those following a *chaotic* pathway). Homelessness among young people is already starting to rise, and the resources available to state and voluntary agencies to deal with the issue have declined due to cuts in public expenditure. Added to this is the lack of a new supply of housing across all sectors.

At the stakeholder interviews there was discussion of increasing use of the Private Rented Sector for vulnerable young people, but there was also an awareness that changes in the local housing allowance, increased competition from other young people, and the lack of support services meant that there was a real risk of many young people not having their needs met. Many stakeholders feared a return to unsatisfactory bed and breakfast or hostel accommodation for homeless young people at a time when they would be trying to break away from this. The challenges will differ across the UK, with increasingly diverse homelessness policies being adopted. Scottish local authorities already accommodate far more homeless people in temporary accommodation than those in England or Wales.

One of the most prominent impacts on vulnerable young people will be the changes to Housing Benefit payments, reducing payments to young people under 35 to be commensurate with the rate of a single room in shared accommodation. In response, stakeholders strongly advocated a greater provision of shared accommodation. It was suggested that landlords should make more innovative use of their existing stock, creating very small-scale – perhaps only two-bedroom – shared accommodation options. These stakeholder responses run contrary to the preferences of young people, who mostly felt that shared accommodation was undesirable. The key message

from young people was to remove the shared accommodation rate rule and give young people the same access to accommodation as adults. However, in the absence of such major policy reform stakeholders recognised the need to make the private and social rented sectors work better for vulnerable young people.

In 2020 young people will be further marginalised within a badly functioning housing system. Some young people will be particularly vulnerable because of their lack of resources or opportunity. This study has found that responses to the housing challenges facing young people in 2020 will require fundamental interventions in the UK housing system. These must include tackling the shortage of housing across all tenures, our high housing costs and related problems of affordability.

NOTES

- 1 Income data in the British Household Panel Survey relates to individuals, hence we cannot determine whether a household consisting of a couple will have two incomes or a single income. In order to account for this, we present total household numbers in the first two tiers as a range. In the first tier, the highest figure assumes all *two parent, early nester* and *social renting* young people have two incomes. In the second tier, the highest figure assumes all *two parent, early nester* and *social renting* young people have only one income. Importantly, the total number of young people living in PRS accommodation, independent of their parents, does not exceed 3.7 million. Therefore, if all young couples were to have two incomes, the maximum number of young people in the first tier range and the minimum number of young people of the middle tier range would be met. There is no range in the third tier, as all households are single-person households.
- 2 See Crisis' Private Rented Sector toolkit, available at: <http://www.privaterentedsector.org.uk/toolkit.asp> [accessed 3 May 2012]
- 3 See, for example, the St Basils Starter Home Initiative cited in Terry (2011, p.51)

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APPENDIX I: TECHNICAL METHODOLOGY

Constructing housing pathways

This study used British Household Panel Survey (BHPS) data from 1999–2000 (Wave 9) to 2008–2009 (Wave 18). Wave 9 was chosen as the starting point, as this was when the Welsh and Scottish boosts were introduced and it also would provide a ten-year data period for the construction of housing pathways. It also meant that Northern Ireland was too small to be included in the BHPS analysis, as their boost was not introduced until 2001. The sample was limited to people aged 16–21 in 1999–2000, so that sample members would remain within the age range of study (16–30 years old) across the ten-year period. Sequences of tenure, household type, marital status and economic activity were created for each individual by combining an individual's responses in these areas over the ten years. Because sequence analysis was used, only cases with non-missing data were included as there was no suitable method for imputing missing data across the four variables (Gabadinho, *et al.*, 2011). This reduced the final sample size from 1,518 cases of 16–21 year olds in the 1999–2000 wave to 458 cases.

Comparisons of the 1,518 cases of 16–21 year olds in the BHPS in 1999–2000 wave with the final sample of 458 cases indicated that the 'starting point' for the two populations was not significantly different with respect to the variables used in the analysis. There was a slightly lower percentage of private renters in the final sample (4 percentage points), although this was to be expected given the higher turnover/mobility in this sector, making it difficult to trace respondents and thus increasing the likelihood that they would drop out of the BHPS. By contrast, there were proportionally more people in owner-occupation (7 percentage points). There were slightly fewer unemployed respondents (3 percentage points) in the final sample and slightly more respondents in employment (4 percentage points). Regionally the only major differences were in Wales and Scotland, which had slightly lower percentages (by only 2–3 percentage points) in the final sample. There were no noticeable differences in the marital status of respondents between the two samples.

Sequence analysis and cluster analysis were conducted to assign individuals to pathways based on how statistically similar they were to one another.

taking into account transitions within the four aspects of these young people's lives simultaneously (Pollock, 2007). As these techniques do not use statistical significance tests, the sample size (458) was not problematic in terms of creating the pathway typologies (see Muller, *et al.*, 2011, using similar techniques with a sample of 86 individuals). Sequence analysis calculated the 'distance' between each sequence and all others, thereby providing a numerical indication of how similar or dissimilar the sequences are. In this current study, a simple Hamming method (Gabadinho, *et al.*, 2011) was used with the 'distance' being an indication of in how many places the sequences differed.

These distances were then used in a hierarchical Ward's cluster analysis to create homogenous groups of cases (clusters/pathways), thereby identifying groups of young people with similar transitions (Gabadinho, *et al.*, 2011). When using this type of analysis, the number of pathways that can be assigned has to be chosen by the researcher. This was done inductively using both the quantitative and qualitative data. The sequence/cluster analysis presented a tree diagram of potential pathway configurations, and the qualitative interviews with young people were used to help determine the number of pathways that best captured the information in the tree diagram. Nine pathways were emerging from thematic analysis of the interviews, and visualisation of the four variables in each of the potential pathway configurations indicated that an eight-pathway configuration best mapped onto this thematic analysis. The ninth pathway identified in the qualitative research was a homelessness one, and this was not present in the tree diagram due to the nature of the BHPS. Being a panel survey, it would be difficult to trace a respondent if they had become homeless during the ten-year period and therefore it is likely that they would have dropped out of the survey. They would have then been omitted from the analysis, even if they had subsequently re-entered the BHPS in a later Wave. Bar some discrepancies caused by period and cohort effects, and the particularities of the current housing market, the descriptive sequence analysis of the eight pathways from the BHPS matched closely to the qualitative descriptions. These discrepancies are accounted for in the descriptive write-up.

A review of the literature indicated that the free and open-source statistics package 'R' (<http://www.r-project.org>) was the most appropriate software for this analysis. It contains the software package 'TraMineR' (<http://mephisto.unige.ch/traminer>), which is specifically designed for the analysis and visualisation of sequence data, and R also provides functions to undertake the cluster analysis. Descriptive statistics were carried out in SPSS once cluster membership had been assigned to individuals. BHPS data were not weighted during the sequence analysis and in order to maintain continuity, weighting was omitted when calculating the descriptive statistics.

Tenure projections

The tenure projections for 2020 were calculated by taking a breakdown of tenure for 18–30 year olds from the Labour Force Survey (1997 to 2008), which matched the tenure breakdowns in the BHPS. This included owner-occupation, social rented sector and Private Rented Sector, and these were distinguished between whether the young person was occupying the tenure independently or with their parents. A linear trend was then derived by regression analysis on the data between 1997 and 2008, and this projected forward to 2020. This analysis was limited to 18–30 year olds, as the inclusion of younger age groups would have over-inflated the percentage in the parental home.

Population estimates

Population estimates for each of the clusters were based on aggregated weighted data. The proportion of tenure types in each cluster (excluding the homeless cluster) was calculated using the cases in the 2008–2009 BHPS Wave. Similar tenure breakdowns were obtained from the weighted Labour Force Survey (LFS) for 2008, for 18–30 year olds. The LFS breakdowns were then used to weight the pathways by tenure breakdown so that the overall tenure breakdown for the final sample in 2008–2009 matched the nationally representative percentages. A similar method was used in the calculation of the 2020 populations, only using the projected tenure breakdowns for 2020. The ONS mid-year population estimates for 18–30 year olds, both for 2008 and 2020, were then divided by the re-weighted percentages for the cluster by tenure breakdowns to estimate the numbers of young people per tenure in each cluster for 2008 and 2020.

Homelessness estimates

Estimates of homeless young people were based on numbers of all statutory homeless households (acceptances, non-priority need and intentional) in England between 1998 and 2010 (CLG, 2011c). The estimated number of homeless young people in 2006–2007 (75,000) was used to calculate the proportion of homeless young people from the CLG figures and the percentage point change was calculated across consecutive years from 2006–2007 to 2010–2011. Projections of estimated numbers of homeless young people were then calculated using a percentage increase that diminished by 2 per cent each year until 2019–2020 starting from the 2009–2010 to 2010–2011 percentage point change of 15 per cent. This saw a projected increase of estimated homeless young people from 46,500 in 2010–2011 to 81,000 in 2019–2020.

APPENDIX II: DATA SOURCES

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APPENDIX III: YOUNG PEOPLE AND THEIR HOUSING SCENARIOS: 2008–2020

Housing pathway		2008	2020
Stay at home to own		Population estimate 3.7 million	4 million
<i>Description</i>		<ul style="list-style-type: none"> • These young people tend to remain in the owner-occupied parental home until age 30, then generally exit into owner-occupation. • 20% in couples by age 30 (no children). • 30% have qualifications higher than A-level standard; 28% A-levels; 34% GCSEs; 7% no qualifications. • Median income of £18,739. 	<ul style="list-style-type: none"> • Young people with higher-level qualifications and incomes will enter this pathway due to difficulties accessing home ownership. • Due to difficulties accessing home ownership, young people in this pathway will remain in the parental home until later. Some will exit into the PRS.
Dual income, no kids owners (DINKOs)		Population estimate 1.4 million	1.4 million
<i>Description</i>		<ul style="list-style-type: none"> • These young people tend to leave the owner-occupied parental home and enter PRS housing. Roughly 40% are in owner-occupied accommodation by age 30, with one third remaining in the PRS. • 86% in couples by age 30 (no children). • 53% have qualifications higher than A-level standard; 24% A-levels; 18% GCSEs; 4% no qualifications. • Median income of £21,629. 	<ul style="list-style-type: none"> • Due to limited access to home ownership, the vast majority of these young people will enter the PRS, making these young people <i>dual income, no kids renters (DINKRs)</i>. • A greater proportion of young people in this pathway will choose not to pursue higher education, which will probably impact on income levels and therefore housing choices.
Two-parent families		Population estimate 1.1 million	850,000
<i>Description</i>		<ul style="list-style-type: none"> • These young people tend to leave the parental home and enter either owner-occupation (65%) or the PRS (22%). Compared to the contracted pathways of <i>early nesters</i>, these young people spend longer living alone or as couples before starting a family. • 92% in couples by age 30. • 26% have qualifications higher than A-level standard; 30% A-levels; 43% GCSEs; 1% no qualifications. • Median income of £17,527. 	<ul style="list-style-type: none"> • Young people in this pathway are not likely to have accrued the necessary capital to access home ownership, so access to home ownership is likely to be largely dependent on the support of parents. Levels of home ownership will therefore decrease. • Those who are squeezed out of this pathway may remain in the parental home longer, enter the PRS and live there longer before having children, or they may have children in the PRS.

	2008	2020
Housing pathway		
Early nesters	<p>Population estimate 500,000</p> <p>Description</p> <ul style="list-style-type: none"> • These young people tend to leave the family home before their 21st birthday and live in couple households with or without children. A high proportion of exits from the family home were into owner-occupation. • 86% in couples by age 30. • 20% have qualifications higher than A-level standard; 24% A-levels; 37% GCSEs; 9% no qualifications. • Median income of £ 14,210 	<p>420,000</p> <ul style="list-style-type: none"> • As a result of difficulties accessing owner-occupation, it is likely that the dominant tenure for these young people will no longer be owner-occupation, it will be the PRS. • This group of young people faces a relatively negative outlook in terms of employment, which means that incomes will remain low compared to many other young people living in the PRS, therefore leaving them to consume lower-end properties.
Young professional renters	<p>Population estimate 1.6 million</p> <p>Description</p> <ul style="list-style-type: none"> • These young people tend to leave the owner-occupied parental home into shared PRS housing, often for higher education. Most stay in the PRS until they are 30, while roughly one in seven moves into owner-occupation. • 33% in couples by age 30 (no children). • 68% have higher education qualifications; 17% A-levels; 15% GCSEs; 0% no qualifications. • Median income of £15,571. 	<p>2 million</p> <ul style="list-style-type: none"> • Some young people who would previously have followed other pathways are likely to be forced to share in the PRS, therefore increasing the pathway population considerably. • Increases in higher education fees are likely to result in a decrease in the number of students following this pathway – they are likely to stay at home. • Fewer young people in this pathway will be in owner-occupation, they will instead enter the PRS.
In the social queue	<p>Population estimate 1 million</p> <p>Description</p> <ul style="list-style-type: none"> • The majority of these young people remain in the social rented parental home until at least 30, or exit into a social rented tenancy • 22% in couples by age 30. • 14% have qualifications higher than A-level standard; 23% A-levels; 37% GCSEs; 26% no qualifications. • Median income of £8,768. 	<p>1.3 million</p> <ul style="list-style-type: none"> • The number of young people living with parents in social rented housing will increase because of the lack of alternatives. For example, <i>social renting families</i> may defer having children and remain in the <i>social queue</i> instead. • Some young people will choose not to further delay their exit from the parental home and will therefore exit this pathway into the PRS. • As a result of changes to non-dependent deductions in housing benefit payments, some young people may leave the parental home in a <i>chaotic</i> manner.

	2008	2020
Housing pathway		
Lone parent	<p>Population estimate</p> <p>680,000</p> <p>Description</p> <ul style="list-style-type: none"> • These young people, who are almost entirely female, tend to leave the parental home and enter their own social rented accommodation. A significant minority will enter the PRS. Economic inactivity is a prominent feature among these young people. • 29% in couples by age 30. • 11% have qualifications higher than A-level standard; 22% A-levels; 59% GCSEs; 7% no qualifications. • Median income of £13,065. 	<p>Population estimate</p> <p>590,000</p> <p>Description</p> <ul style="list-style-type: none"> • As a result of a lack of social housing, a small proportion of young people will no longer follow this pathway, choosing to remain at home instead, and even delay having children because of insecurities about accommodation options. • For the majority of other young people who follow the lone parent pathway the predominant tenure will still be social rented accommodation, but there will be an increase in the proportion of lone parents living in the PRS.
Social renting families	<p>Population estimate</p> <p>440,000</p> <p>Description</p> <ul style="list-style-type: none"> • These young people tend to leave the family home and enter social rented accommodation. The pathway is differentiated from others in the social rented sector in that most young people are living in family households, some with children. • 86% in couples by age 30. • 5% have qualifications higher than A-level standard; 14% A-levels; 46% GCSEs; 36% no qualifications. • Median income of £14,424. 	<p>Population estimate</p> <p>360,000</p> <p>Description</p> <ul style="list-style-type: none"> • The primary challenge facing this group of young people will be heightened difficulties in gaining access to social rented sector accommodation. • Some young couples will exit this pathway and seek alternative accommodation in the PRS, where their relatively low incomes will restrict their housing options. • An increasing number of young people following this pathway are likely to seek alternative means of entering the social rented sector, for example through the statutory homeless route.
Chaotic	<p>Population estimate</p> <p>75,000 (16–24years)</p> <p>Description</p> <ul style="list-style-type: none"> • The housing pathways of these young people are marked by repeated entry and exit into the social rented sector and PRS. • Initial exits from the parental home are often into homelessness, most frequently caused by family conflict. Further episodes of homelessness among these young people are sometimes hidden, with young people 'sofa-surfing' with friends or extended family. • Low levels of academic qualifications. 	<p>Population estimate</p> <p>81,000 (16–24 years)</p> <p>Description</p> <ul style="list-style-type: none"> • More young people will follow this pathway, such as those who face considerable shortfalls between LHA and rent payments. • Causes of youth homelessness, such as family relationship breakdown, are likely to persist and even worsen with less public funding being allocated to prevention and support interventions. • These young people are increasingly likely to be accommodated in the lower echelons of the PRS.

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