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Summary

Home-owners and poverty

This study informs the debates about the potential and limits of home-ownership for low-income households.

Brian Robson
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Key statistic

Half of all households in poverty are led by home-owners, decreasing to a third after housing costs (AHC) are considered. This is equivalent to between 1.8 and 2 million households before housing costs (BHC) and between 1.7 and 1.8 million households AHC.

Recommendations

- Policies that promote the expansion of home-ownership among low- to moderate-income groups should be accompanied by programmes that support these households, which are shown to be at greater risk of poverty and default.
- Regulatory authorities should check longer mortgage terms are sustainable over the whole term and monitor whether longer-term loans have any impact on the level of investment in pensions.
- The poor housing conditions among home-owners in poverty, particularly older outright owners, need greater attention. Fixing homes that are cold, dangerous or in poor repair should enable older people to stay in their homes for longer, and avoid homes becoming a potential cause of ill-health.
- A comprehensive review of mortgage safety nets is needed to determine how low-income home-owners should be supported in the future.

The research
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Background

Home-ownership is more associated with wealth and social mobility than poverty, but home-owners comprise half of all households in poverty (or a third after housing costs are considered). This study examines the circumstances of home-owners in poverty, where they live and their housing finances, and how these may have changed over time.

Key points

- Poverty among home-owners has reduced significantly over time, but less so for households with mortgages. For these, housing costs meant that rates of poverty were higher in 2013/14 than before the financial crisis, despite low interest rates.
- If the trend continues for fewer households in lower-paid occupations entering home-ownership, poverty rates among home-owners would decrease. A one percentage point rise in mortgage interest rates would modestly increase the rate of poverty AHC.
- Most outright owners in poverty were retired couples or singles, and most mortgaged households in poverty were middle-aged couples with children. But the home-owners at the greatest risk of poverty include those in self-employment, routine occupations or part-time work, those who have taken out an additional mortgage, lone parents and those whose relationships break down.
- Home-owners in poverty were twice as likely to report arrears (14%) than other households with mortgages (7%), and were overwhelmingly led by someone in work. Those in work are excluded from the current system of mortgage safety nets.
- Housing markets behave very differently across the UK – in some places, home-owners experiencing poverty could have more equity in their home than someone who is not in poverty elsewhere. Significant policy concerns in some areas fail to register at the UK level. The homes of older home-owners in poverty before housing costs (BHC) need significant investment (£2 billion) to bring them up to the Decent Homes Standard. The average investment needed to repair each property is a fraction of the money tied up in the owner's home.

Existing evidence and knowledge

Existing evidence shows that spells of poverty among home-owners are more frequent but less profound and enduring experiences compared to those of renters. However, the homes of home-owners in poverty are more likely to be in a poor condition than those of social housing tenants. Home-ownership also presents a financial risk – more lower-income home-owners are behind with their mortgage payments than other home-owners, despite historic low interest rates and low levels of arrears and possessions. Home-owners accumulate housing wealth, but while drawing on housing equity can be an effective buffer against a sudden loss of income, it also represents a greater risk of repossession, not least for lower-income households. A welfare system based on people's assets is challenging because housing wealth is distributed unevenly (houses in London increased more than elsewhere) and people are often unable to use their housing wealth.

In-depth interviews with stakeholders highlighted concerns about how affordable home-ownership resources are targeted and the need to bolster housing supply at price points that meet the needs of all households. The stakeholders thought that new mortgage market regulation would generally contain the risks arising from extending the reach of the tenure. However, some were concerned that longer mortgage terms may prevent people switching their investment to pensions in middle age and that rising debt levels could be problematic, especially if bank base rates rise. Stakeholders were concerned that the system of mortgage safety nets was wholly inadequate.

Characteristics of home-owners in poverty

The profile of home-owners in poverty reflects the household profile of the tenure. Poverty among outright owners is concentrated on older retired households, while poverty among mortgaged households is concentrated on middle-aged couples with children.

Certain home-owners are at greater risk of experiencing poverty. These included people who are single, male, lone parents, overcrowded, take out an additional mortgage, experience relationship breakdown, work part-time, and/or are in routine occupations or self-employment. White home-owners have a lower risk of poverty than those from an ethnic minority background. While outright owners in poverty were frequently retired, the majority of mortgaged households in poverty were in working households.

Home-ownership has increasingly become the tenure for those in professional and managerial positions and now accommodates fewer households in routine or manual occupations or self-employment.

Home-owners and place

Northern Ireland (before and after housing costs) had the highest rates of home-owners in poverty and Scotland the lowest. Housing costs had a large impact on poverty rates (AHC) in the South of England and Scotland (from a low base).

Home-owners in poverty live in many places, but more frequently live in areas of multiple deprivation, slightly more often in lower-value homes than others in their local area, and among homes in the lowest council tax bands. However, home-owners in poverty were less likely to live in degraded neighbourhood environments than other households in poverty. Although home-owners in poverty had larger homes than other households in poverty, mortgaged households in poverty comprised 20–25% of overcrowded households, and a third of overcrowded households with incomes below the Minimum Income Standard (a benchmark of adequate income). The largest proportion of non-decent homes were those belonging to home-owners, particularly older outright owners in poverty (before housing costs), whose homes needed a total of £2 billion investment to meet the Decent Homes Standard. Making sure homes are warm and safe is important if people are going to live in them for longer.

Home-ownership finances

High housing costs among home-owners have slowed the decline in poverty rates in this tenure after the financial crisis. Households with mortgages comprised half of households spending over 35% of their income on housing costs, but only a third of all households in poverty (AHC) who had high housing costs. Home-owners in poverty are over four times more likely to pay 35% or more of their income on housing costs than those not in poverty. While 13% of all mortgaged households paid 35% or more of their income on housing costs, 59% of mortgaged households in poverty AHC spent equivalent proportions. High housing costs increased the rate at which people were behind on their loans, and overall, home-owners in poverty were twice as likely (14%) to report that they had mortgage arrears. Moreover, as 81% of all those behind on their mortgage payments were in work (and 52% or 62% of home-owners in poverty BHC/AHC and 67% of home-owners with inadequate incomes below the Minimum Income Standard), home-owners are largely ineligible for help with housing costs.

Older home-owners in poverty used interest-only loans the most, limiting their ability to switch to affordable repayment loans prior to retirement. Interest-only loans reduced the housing cost burdens for home-owners in poverty, but attracted higher interest rates. Access to lower mortgage rates would support greater loan repayments.

Regionally the sums of housing equity varied considerably, reflecting local housing market circumstances – some households experiencing poverty held more equity in their homes than households that were not in poverty elsewhere. Outright owners not in poverty in Northern Ireland held lower sums of housing equity (£120,000) than outright owners in poverty in all other regions except Scotland. Mortgaged home-owners experiencing poverty in London had more housing equity (£203,000) than outright owners who were not in poverty in all other regions of the UK except the South of England.

Very few home-owners drew upon their equity, but among mortgaged households, younger mortgage-holders in poverty (BHC) and older outright owners below the minimum income threshold used equity withdrawal the most. While many home-owners in poverty could downsize to reduce housing costs and/or release substantial sums of housing equity, a smaller but significant minority (14–17%) were adequately accommodated or overcrowded in the lowest-value homes in their area with little equity. They would need additional support to move unless they were moving to a lower-cost market or leaving the tenure.

Home-owners and poverty over time

Poverty rates among outright owners have reduced significantly but less so for mortgaged households, for whom housing costs meant poverty was higher in 2013/14 than before the financial crisis, although lower than during the 1990s market downturn. During the 1990s, if home-owners entered poverty they were also more likely to leave the tenure, mostly to private renting, but in the 2000s, they were increasingly able to stay in the tenure and move out of poverty. Home-owners stayed out of poverty predominantly by staying in work, but the strength of this effect reduced over time. People tended to enter poverty when they retired, but over the study period retired people became less likely to experience poverty. A fifth of relationship breakdowns resulted in home-owners entering poverty (AHC) during the 2000s.

Home-owners from ethnic minority groups stayed in poverty almost twice as often as white home-owners over most of the study period. Those with the greatest housing equity were able to remain out of – or escape – poverty more frequently than those with less equity. Self-employed home-owners were the most likely to move into and out of poverty, indicating that they are particularly exposed to market fluctuations. Home-owners in professional or managerial jobs were the least likely to fall into poverty.

Should Bank of England base rates rise one percentage point, all things being equal, the rate of poverty among home-owners would rise modestly from 11% to 12%. Such a rise would have a larger impact on home-owners in poverty – the proportion spending over 35% of income on housing costs would rise from 55% to 72% (AHC). As rates are likely to change incrementally, and many people have fixed the interest rate on their loans, these changes may happen slowly. Poverty among home-owners would decline if current trends in their occupations continue, as fewer low-income workers are able to get mortgages. It would rise if the tenure could draw in greater numbers of low- to moderate-income households.

Policy implications

The authors recommend:

- policies to promote the expansion of home-ownership among low- to moderate-income groups, accompanied by programmes that support these households, which are shown to be at greater risk of poverty and default
- regulatory authorities should check longer mortgage terms are sustainable over the whole term and monitor whether longer-term loans have any impact on the level of investment in pensions
- national regulatory, social security or housing agencies to have greater sensitivities to the geographical diversity of housing and/or home-ownership experiences, which can give rise to policy mismatches
- greater attention to be paid to the poor housing conditions among home-owners in poverty, particularly older outright owners. Fixing homes that are cold, dangerous or in poor repair should enable older people to stay in their homes for longer, and avoid homes becoming a potential cause of ill-health. The cost of this work could be covered from the housing equity held in the home, if national governments ensured access to a revolving loan fund, and the support to undertake the work required.
- a comprehensive review of mortgage safety nets to determine how low-income home-owners should be supported in the future. Certainly, the conversion of current mortgage interest payments to an equity charge signals that existing support mechanisms could be more generous in terms of waiting times and eligibility.

About the project

This study uses five waves of Understanding Society and the British Household Panel Survey between 1993/4 and 2013/14. The analysis was supported by a literature review and in-depth interviews with policy and industry stakeholders.

For further information

This summary is part of JRF's research and development programme. The views are those of the authors and not necessarily those of JRF.

The full report, **Home-owners and poverty** by Alison Wallace, David Rhodes and Firona Roth, is published by the Joseph Rowntree Foundation. It is available as a free PDF at www.jrf.org.uk

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