BRIEFING

Housing hurdles

The changing housing circumstances of young people in Britain

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Summary

While more than half (53 per cent) of baby boomers born between 1961-65 were homeowners by age 30, that's true for just over a quarter (27 per cent) of millennials born between 1981-85. But against a bleak backdrop of a secular fall in the home ownership among younger families, there is some good news. Home ownership rates for those born between 1991 and 1995 have been rising in recent years and have surpassed those of the cohort born a decade earlier at the same age. By age 25, 14 per cent of millennials born in 1991-95 owned their own home, compared to 13 per cent of those born in 1981-85. Indeed, looking at people of this age and slightly younger, home ownership rates for 25-34-year-olds have risen by 6 percentage points from its low point in 2015-16 to reach 31 per cent in 2022-23.

The recent rise in home ownership rates among young millennials is encouraging, but many other factors shape their overall experience in the housing market. The decline in home ownership among young people has been accompanied by two major trends: a sharp rise in the private-rented sector and an increase in the share of young people living with their parents. Between 1990 and 2022-23, the proportion of young people renting privately more than tripled, growing from 10 per cent to 33 per cent. Similarly, the share of 25-34-year-olds living with their parents rose from 16 per cent in the early 1990s, when home ownership rates for this age group were at their peak, to 22 per cent in 2022-23.

These shifts have important implications for living standards. Private renting is the most expensive form of housing tenure, with 25-34-year-olds in this sector spending an average of 31 per cent of their household income on housing costs, compared to just 12 per cent for mortgagors and 5 per cent for outright homeowners. It is difficult to estimate housing costs for those living at home with parents, as costs are measured at the household level. But the long-term rise in the share of young people living with their parents may have implications for their financial independence and is clearly driven by the high cost and availability of alternative housing options.

There has also been some good news on the share of young people's income spent on housing. For 25-34-year-olds, spending on housing peaked in 2007-08 at 28 per cent of household income, at a time when mortgages consumed 26 per cent of income on average, and private rents consumed 34 per cent, both near historic highs. Since then, the share of income spent on housing has declined substantially, particularly over the past five years. In 2022-23, 25-34-year-olds (excluding those living with their parents) spent an average of 22 per cent of their income on housing, down from 27 per cent in 2015-16, marking the lowest housing cost to income ratio since 1988. This period coincided with the rise in home ownership, a drop in private renting and a fall in the share of income spent on housing costs across tenures. The decline in the share of income

spent on housing may seem counterintuitive amid headlines of record-high rental prices for new tenancies and the sharp rise in the Bank Rate since 2021. However, slower rental growth across existing tenancies and strong nominal earnings have helped offset rising costs, while for mortgagors, fixed-term deals have delayed the impact of higher interest rates.

The recent trends of rising home ownership and falling housing costs relative to income are positive developments for 25-34-year-olds, but all is far from well for this group.

While the aggregate picture is one of recent improvement, this has not happened equally for all groups and in all regions. The rise in youth home ownership rates in recent years has been concentrated among middle- and higher-income families, widening the income gap between those who benefit from home ownership and those who do not. In 2015-16, home ownership rates for those in the top third of the income distribution were 36 percentage points higher than for those in the lowest third, but this difference expanded to 39 percentage points by 2022-23. Young people in London and the South East have also experienced only a modest recovery in home ownership rates in recent years, leaving home ownership among 25-34-year-olds in these regions at relatively low levels (19 per cent and 29 per cent, respectively).

And although the share of young people's income consumed by housing costs reached a 35-year low in 2022-23, many still face unaffordable expenses. Lower-income families face a disproportionately large burden from housing costs: 53 per cent of 25-34-year-olds in the lowest-income quintile spend more than 30 per cent of their income on housing, compared to just 10 per cent of those in the highest-income quintile. Regional disparities are also stark – more than two-fifths (43 per cent) of young Londoners spend over 30 per cent of their income on housing, compared to just 8 per cent of 25-34-year-olds in the North East.

High housing costs undermine financial resilience and wellbeing. In 2018-20, the typical household headed by a 25-34-year-old had £3,000 in accessible savings. However, this figure more than doubled to £6,500 for those without housing costs, while those spending more than 30 per cent of their income on housing typically had just £700 in savings. Higher housing costs as a share of income are also associated with worse mental health: only 1 per cent of those with no housing costs reported feeling anxious, compared to 13 per cent of those spending 30 per cent or more of their income on housing. Even when accounting for income, employment, and gender, these disparities in mental health outcomes remain statistically significant.

Rising home ownership rates in recent years have played a key role in reducing the share of income young people spend on housing. But home ownership among 25-34-year-olds remains very uneven and well below that of the baby boomers when they were at the same age. And high housing costs in relation to incomes continue to erode financial resilience and exacerbate mental health challenges, leaving many young people vulnerable to financial shocks and heightened stress. It is, therefore, welcome that the Government has set an ambitious target to deliver 1.5 million new homes by the end of this Parliament and pledged to introduce a permanent mortgage guarantee scheme to help first-time buyers struggling with deposits and high costs. And to better support low-income families struggling with high housing costs, the Government should re-link Local Housing Allowance (LHA) to actual local rents by resetting rates to cover the 30th percentile of market rents in April 2024. But current plans are for these rates to be permanently frozen in nominal terms. Additionally, scrapping the rule that gives a lower LHA rate to single individuals under 35 would provide essential relief to younger renters in the private sector, where housing costs often far outstrip stagnant benefit levels. These measures would help bridge the growing gap between housing affordability and financial support for those most in need.

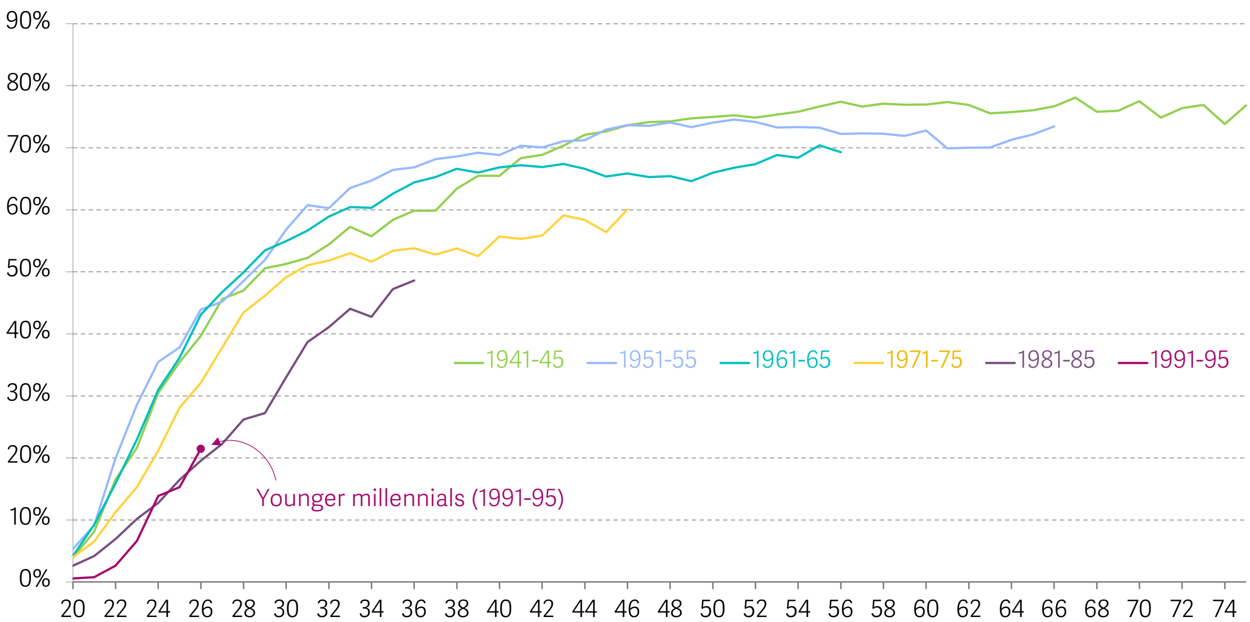
Younger millennials have been closing the home ownership gap

It is no secret that, since house prices started booming in the 1980s, young people in Britain have a raw deal when it comes to buying a home. There has been a marked decline in home ownership rates since the generation born in the 1950s (older baby boomers), with more recent cohorts seeing significantly lower levels of home ownership at the same ages than those born earlier. For example, Figure 1 shows that more than half (53 per cent) of baby boomers born between 1961-1965 were home owners by the age of 30, compared to less than a third (27 per cent) of millennials born between 1981-1985.

But younger millennials are narrowing the home ownership gap. Although those born in 1991-95 entered early adulthood with the lowest home ownership rates on record, they have recently surpassed the cohort born a decade earlier, albeit only just: by age 25, 14 per cent of millennials born in 1991-95 owned their own home, compared to 13 per cent among those born 10 years earlier.

FIGURE 1: **Despite recent improvements, millennial home ownership rates fall short of previous cohorts**

Proportion of family units owning a home, by age of head of family unit and birth cohort: UK, 1961-2022-23



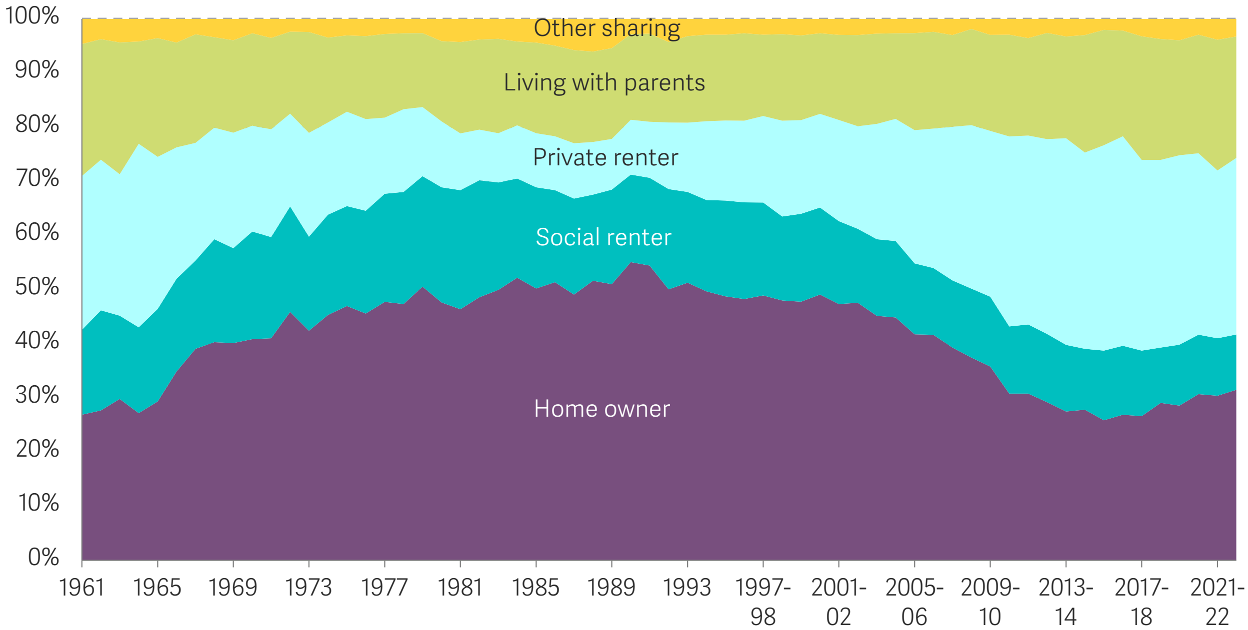
NOTES: Figures for each cohort are derived from a weighted average of estimates by single year of age; cohorts are included if at least five birth years are present in the data. Prior to 2017, years are calendar years, from 2017, years are financial years.
SOURCE: RF analysis of IFS, Households Below Average Income (1961-93); DWP, Labour Force Survey (1994-2016), Family Resources Survey (2017-18 to 2022-23).

The recent rise in home ownership rates among young millennials appears promising, but many other factors shape their overall experience in the housing market. In this briefing note we focus on the housing experience of today's 25-34 year-olds – those younger millennials who have been catching up in home ownership terms – and compare them to previous generations at the same age.

Figure 2 switches from a cohort perspective to look at how housing tenure has changed over time among 25-34-year-olds. It shows that home ownership rates have increased by 6 percentage points since their historic low in 2015-16, rising from 26 per cent to 31 per cent in 2022-23, consistent with the recent catch-up in home ownership among younger millennials born in 1991-95 shown in Figure 1. Alongside this, the share of young people privately renting has fallen by 5 percentage points, while social renting has declined by 3 percentage points.

FIGURE 2: **Falling home ownership has coincided with an increase in private renting**

Housing tenure for family units aged 25-34: GB/UK



NOTES: A family unit is a single adult or couple, and any dependent children. 18-year-olds that live with parents and are not full-time students are not counted as separate family units and do not appear in these statistics. 'Other sharing' refers to anyone sharing who is not a single adult without children living with their own parents, e.g. single parents living with their own parents, elder family members or lodgers. Prior to 1994, years are calendar years, from 1994, years are financial years. Data is for Great Britain only between 1994-95 and 2001-02.
SOURCE: RF analysis of IFS, Households Below Average Income (1961-93); DWP, Family Resources Survey (1994-95 to 2022-23).

Despite this recent improvement, the long-term trend is a steep decline in home ownership among 25-34-year-olds. Home ownership peaked at 55 per cent in 1990 for this age group – 24 percentage points above its current level – highlighting that the recent recovery still leaves today's young millennials well below the rates enjoyed by older cohorts at the same age. This generational decline has driven more young people into the private-rented sector: between 1990 and 2022-23, the share of young adults privately renting tripled, rising from one-in-ten (10 per cent) to a third (33 per cent). At the same time, the shrinking social-rented sector has further pushed those who might have previously qualified for social housing into the private-rented sector, where affordability and security challenges are more pronounced.[1]

There has also been a rise in the proportion of 25-34-year-olds living with their parents. In the early 1990s, when home ownership rates were at their peak, 16 per cent of this age group lived with their parents. By 2022-23, this had increased to 22 per cent. While living at home can reflect positive choices, it can also stem from young people being unable to afford to live independently, particularly as young people living at home are more likely to be unemployed or working in low-paid jobs.[2]

And the share of young people's income spent on housing costs has fallen recently

The long-term trends of falling home ownership and increasing private renting among young people have important implications for spending on housing. Figure 3 shows the share of income that 25-34-year-olds spent on housing costs by different tenure types.[3] Private renting is the most expensive form of tenure, taking up around a third (31 per cent) of young people's household income on average in 2022-23 – although this had fallen by 3 percentage points since 2015-16. In comparison, housing costs take up only 12 per cent of income for mortgagors (excluding the principal repayment) and only 5 per cent for households who own outright.

Estimating housing costs for young people living with parents is challenging, as costs are measured at the household level. As a result, we exclude this group from the housing cost-to-income ratio analysis. But the long-term rise in the share living with parents may have implications for young people's financial independence and is clearly driven by the high cost of alternative housing options.[4]

Figure 3 also highlights key housing-cost trends, including a sharp rise in the share of income spent on housing during the 1980s across all tenures, followed by a divergence from the early 1990s between homeowners and renters. So, what has driven these trends? For mortgaged families, housing costs are shaped by house prices at purchase

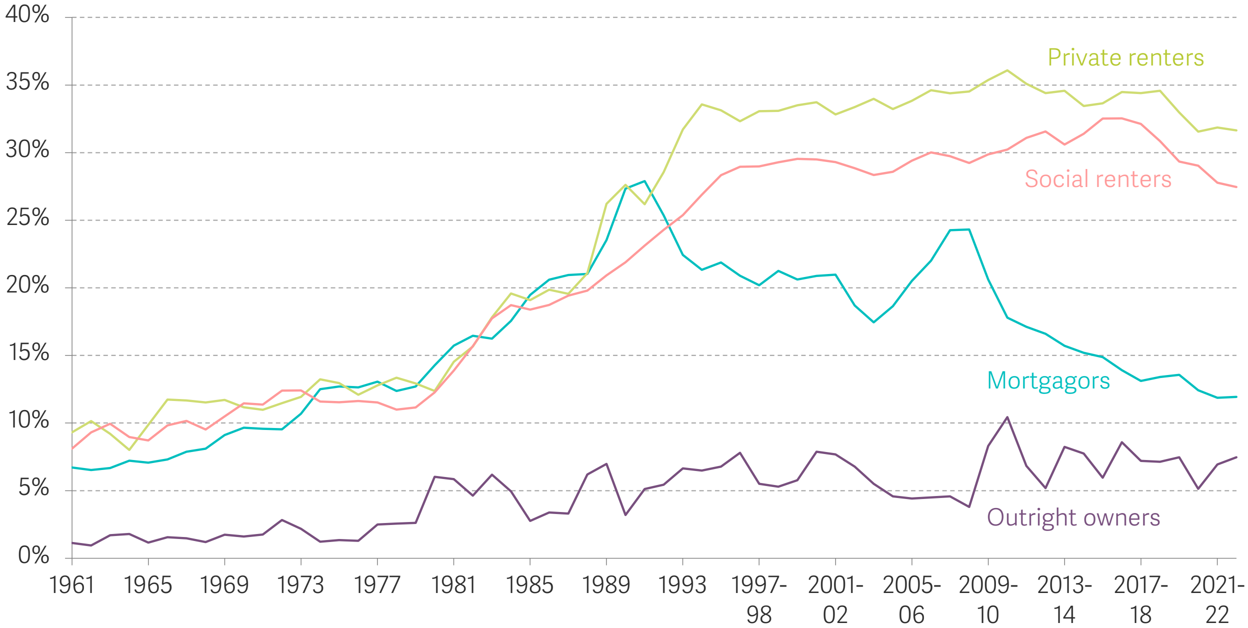
1 R Grayston, N Hudson & T Lloyd, Is the private rented sector shrinking?, Joseph Rowntree Foundation, September 2024.
2 M Broome, S Hale & H Slaughter, An intergenerational audit for the UK: 2024, Resolution Foundation, November 2024.
3 Our key measure of housing affordability is the Housing Cost to Income Ratio (HCIR). This is calculated as housing costs divided by disposable income: the share of a household's disposable income that is spent on housing. We then report the average HCIR amongst all the family units in the relevant population. Housing costs include: mortgage interest; rent; structural insurance premiums; water and sewerage costs; and ground rent or service charges. Council tax payments are not included as a housing cost. Our standard approach is to follow the definitions used in the available datasets, which treat housing benefit as income and the rent that this pays for as a cost to the household.
4 M Broome, S Hale & H Slaughter, An intergenerational audit for the UK: 2024, Resolution Foundation, November 2024.

and interest rates. In the early 1980s, double-digit interest rates and rising house price-to-earnings ratios (from 4.9 in 1980 to 6.5 in 1989) drove up costs, before a house price crash lowered them again in the 1990s.[5]

In the private-rented sector, deregulation in the late 1980s drove up the proportion of income spent on housing. This had knock-on effects on social-rent levels, which are set in part with reference to prevailing market conditions. In addition, the proportion of income that social-renter families spend on housing has risen because their average income has fallen, as some better-off tenants moved into home ownership via Right to Buy.[6] The gap between owners and renters widened further after the 2008 financial crisis: interest rate cuts sharply reduced mortgage costs, while renters saw no similar relief.

FIGURE 3: **Housing costs remain highest in the private-rented sector**

Housing costs as a proportion of income for family units aged 25-34, by tenure: GB



NOTES: A family unit is a single adult or couple, and any dependent children. Income includes housing benefit but housing costs do not net off housing benefit. Incomes and housing costs are assumed to be shared equally within households. Prior to 1994, years are calendar years, from 1994, years are financial years. Data for the chart has been smoothed using a two-year rolling average. Data for Northern Ireland not available between 1994-95 and 2001-02 so has been excluded to enable consistent time comparisons.
SOURCE: RF analysis of IFS, Households Below Average Income (1961-93); DWP, Family Resources Survey (1994-95 to 2022-23).

The average share of income spent on housing by private renters fell sharply in 2019-20 and during the Covid-19 pandemic. This may seem counterintuitive given recent headlines about record-high increases in rental prices for new tenancies. However, rental costs for the overall stock of tenancies rose more slowly, and strong nominal-earnings growth helped ease the burden of housing costs as a proportion of income.[7]

5 S Watling, Britain's forgotten financial crisis, Works in Progress, May 2024.
6 A Corlett & L Judge, Home Affront: housing across the generations, Resolution Foundation, September 2017.
7 C Pacitti, Through the roof: Recent trends in rental-price growth, Resolution Foundation, April 2024.

A similar trend applies to mortgagors. Despite the rapid rise in the Bank Rate since 2021, its full impact has been delayed because most mortgage holders are on fixed-term deals.[8] However, our projections for changes in living standards, based on information about the likely rate at which mortgagors are moving onto higher-rate deals, suggest that the average housing-cost-to-income ratio for mortgagors (excluding capital repayments) will rise in the coming years. This is due to households gradually transitioning from historically low mortgage rates to higher ones, combined with the continued impact of high house prices.[9]

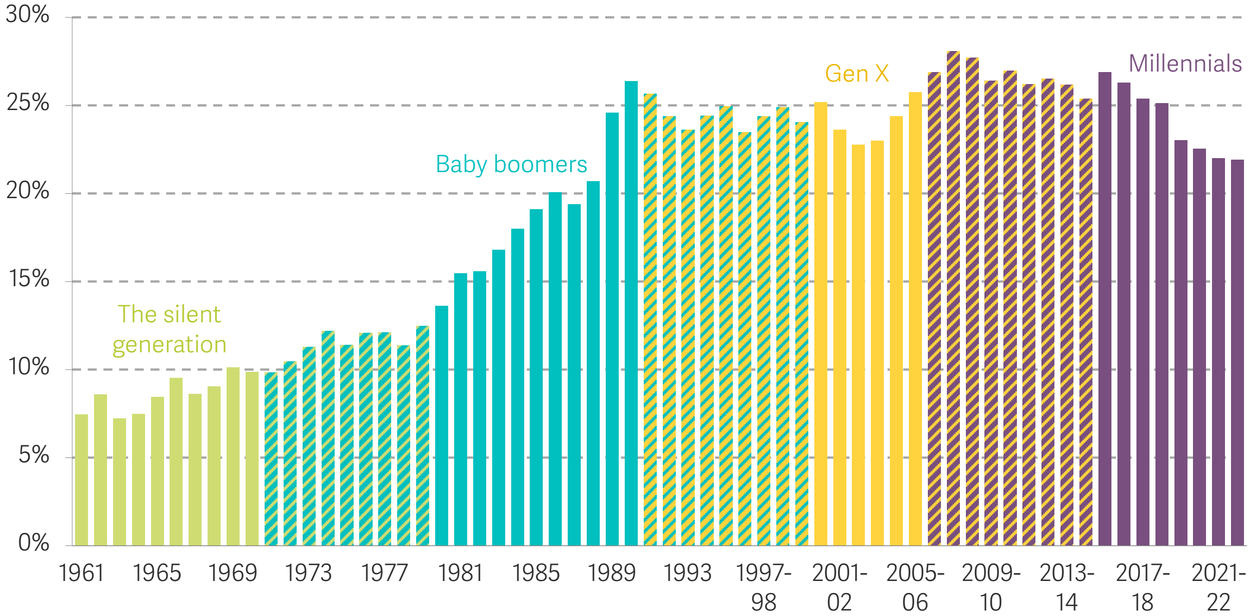
Figure 4 shows what all this means for the share of income spent on housing costs for 25-34-year-olds. Excluding those living with their parents, housing costs peaked in 2007-08 at 28 per cent, with mortgages consuming 26 per cent of income and private rents 34 per cent – both near historic highs (see Figure 3).

But the share of income spent on housing has declined substantially since then, particularly over the past five years. By 2022-23, 25-34-year-olds spent 22 per cent of their income on housing, down from 27 per cent in 2015-16, marking the lowest housing cost to income ratio since 1988. This decline coincides with rising home ownership and falling housing costs across all tenures with a simple decomposition suggesting that two-fifths of the reduction since 2015-16 stems from changes in tenure, while three-fifths results from falling costs within tenures.[10]

8 S Pittaway, The Mortgage Crunch, Resolution Foundation, June 2023.
9 A Clegg & A Corlett, The Living Standards Outlook 2024, Resolution Foundation, August 2024.
10 This calculation uses a shift-share decomposition to analyse how much of the change in the housing cost-to-income ratio for 25–34-year-olds is due to shifts in tenure composition (e.g., renting versus owning) versus changes in the cost of each tenure type. The method involves two steps: first, holding the housing cost-to-income ratio constant while varying tenure composition; and second, holding tenure composition constant while varying the housing cost-to-income ratio. The final result is the average of these two effects.

FIGURE 4: **Housing costs have fallen for young people since 2015-16**

Proportion of net income spent on housing costs (gross of housing benefit, excluding principal repayment) where head of family unit is aged 25-34 and excluding those living with parents: GB



NOTES: Bar colours refer to which generation was aged 25-34 in a given data year: purple refers to millennials, yellow gen x, blue the baby boomers, green the silent generation and hatched bars are used for years with overlapping generations. Data for Northern Ireland not available between 1994-95 and 2001-02 so has been excluded to enable consistent time comparisons.
SOURCE: RF analysis of IFS, Households Below Average Income (1961-93); DWP, Family Resources Survey (1994-95 to 2022-23).

Rising home ownership and falling housing costs have not benefited families equally

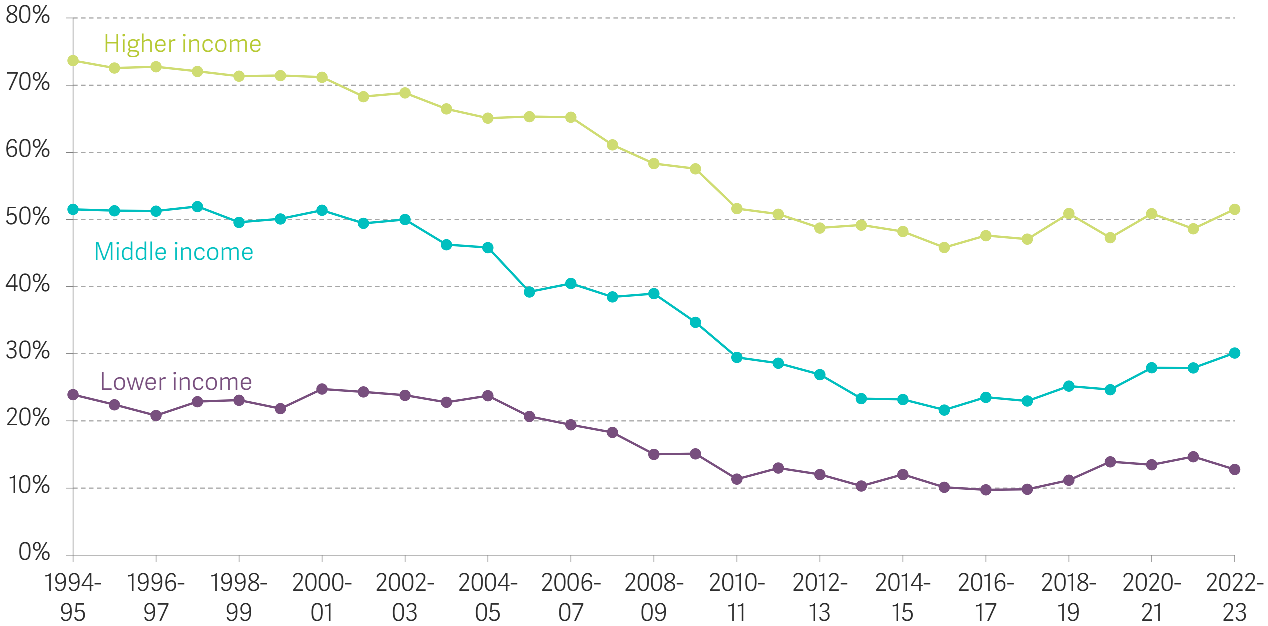
Despite the overall rise in home ownership and decline in the share of income spent on housing among young millennials, these aggregate trends do not tell the full story. Indeed, as shown in Figure 5, in the mid-1990s, home ownership among young adults was strongly linked to income, with families in the highest third of the income distribution three times more likely to own their homes than those in the bottom third (74 per cent of families in the highest third of the income distribution owned their homes in 1994-95 compared to 52 per cent for those in the middle third and only 24 per cent for those in the lowest third).

Home ownership rates fell for young adults regardless of their position in the income distribution from 1994-95 to their low-point in 2015-16, but the magnitude of this decline varied by income level. Middle-income families experienced the steepest drop, with home ownership falling by 30 percentage points, while families in the top third of the income distribution saw a similar decline of 28 percentage points. Families in the bottom third of the income distribution experienced a smaller fall of 14 percentage points, but starting from a significantly lower level of home ownership. This uneven decline narrowed the home-ownership gap between income groups – the difference in home-ownership rates between low and middle-income families fell from 28 percentage points to 12 percentage points, and the gap between low and high-income families narrowed from 50 percentage points to 36 percentage points.

Home ownership rates among middle-income families have made the largest recovery in recent years (Figure 5). Since 2015-16, home ownership rates for 25-34-year-olds in the middle third of the income distribution have increased by 9 percentage points, outpacing the more moderate recoveries among those on higher-incomes (6 percentage points) and low-incomes (3 percentage points). This resurgence has widened the home ownership gap once again, meaning that the benefits of the recent uptick in youth home ownership are concentrated among those in the middle and top of the income distribution. For example, higher-income 25-34-year-olds in 2022-23 were four times more likely to be home owners than lower-income 25-34-year-olds: 52 per cent of families in the top third of the income distribution were homeowners, compared to 30 per cent of middle-income families and just 13 per cent of those in the bottom third.

FIGURE 5: **Young people's home ownership rates have recovered more slowly for poorer families**

Home ownership rates for family units aged 25-34, by net equivalised benefit unit income tertile: GB



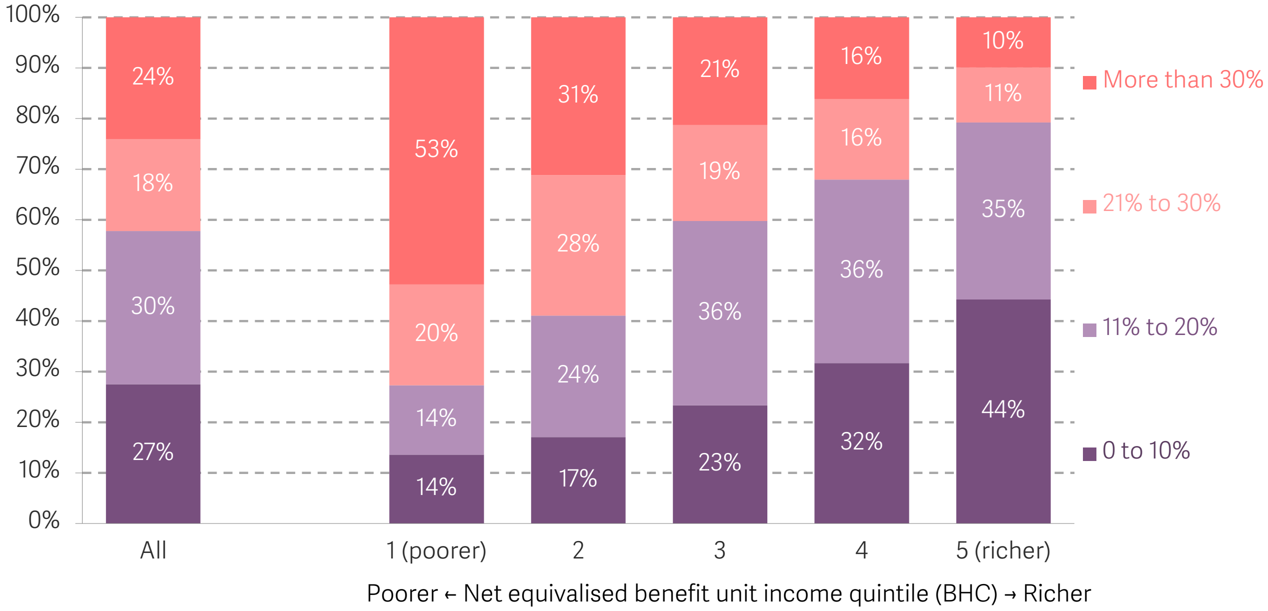
NOTES: Data for Northern Ireland not available between 1994-95 and 2001-02 so has been excluded to enable consistent time comparisons.
SOURCE: DWP, Family Resources Survey (1994-95 to 2022-23).

The divergence in home ownership rates between low- and high-income families aged 25-34 has left those on lower incomes more likely to be renting or living with parents. For instance, we find that families in the bottom third of the income distribution were more than 3 times more likely to be living with their parents in 2022-23 than those in the top third of the income distribution (35 per cent and 10 per cent respectively).

Looking specifically at those not living with their parents, nearly three quarters (74 per cent) of low-income families were living in rented accommodation (the private and social-rented sector) in 2022-23, compared to 41 per cent of high-income families. Lower incomes, combined with a greater likelihood of living in the more expensive forms of tenure, mean that such families are more likely to spend a significantly higher proportion of their income on housing. Indeed, Figure 6 shows that about a quarter (24 per cent) of families aged 25-34 spend more than 30 per cent of their income on housing, but that proportionally high housing costs are heavily concentrated among those at the lower end of the income distribution. Over half (53 per cent) of those in the lowest-income quintile spend more than 30 per cent of their income on housing, compared to around than one-in-five (21 per cent) in the middle-income quintile and just 10 per cent in the highest quintile.

FIGURE 6: **Lower-income families face the highest relative housing costs**

Housing costs as a proportion of income among 25-34-year-olds (excluding those living with parents), by net equivalised benefit unit income quintile: GB, 2022-23



NOTES: Income includes housing benefit but housing costs do not net off housing benefit.
SOURCE: RF analysis of DWP, Family Resources Survey.

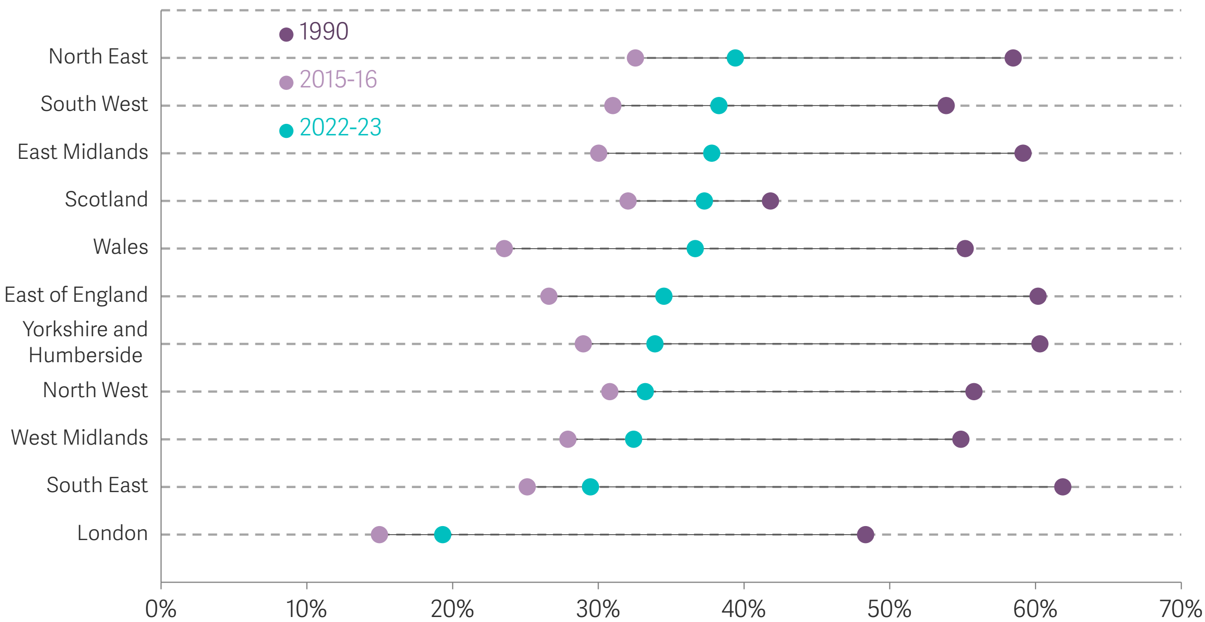
Home ownership has not only diverged by income but also by nation of the UK and region of England. Figure 7 shows that home ownership rates among 25-34-year-olds declined sharply across all UK regions between 1990, when rates for this age group peaked, and 2015-16, when they hit their lowest point. The steepest drops occurred in the South East, East of England, and London, with home ownership rates falling by 37, 34, and 33 percentage points, respectively. In contrast, Scotland experienced the smallest decline, of just 10 percentage points, though its home ownership rates were significantly lower to begin with.

Since 2015-16, most nations and regions have seen a recovery in youth home ownership. Wales led the way with a 13 percentage-point increase, from 24 per cent to 37 per cent, while the East Midlands and East of England each saw an 8 percentage-point rise. By comparison, gains were modest in the North West (2 percentage points) and in London and the South East (4 percentage points). This has left home ownership among 25-34-year-olds in London and the South East at relatively low levels – 19 per cent and 29 per cent respectively. This variation in recovery likely reflects regional differences in housing affordability. Over recent decades, house prices have risen far faster than wages across the UK, but the increase in house prices has been particularly steep in regions like London and the South East, which have seen the median house price as a proportion of household disposable income increase by 239 per cent and 104 per cent, respectively, since 1998-99.[11] In these areas, young people face greater challenges saving for a deposit, as the typical house now costs around 14 times the median income in London, and 10 times the median income in the South East.[12] By contrast, Wales has only seen average house prices as a proportion of incomes rise by 45 per cent since 1998-99, with no change between 2015-16 and 2022-23, and the price of a typical house is just six times the median income.[13]

11 ONS, Housing Purchase Affordability, UK: 2023, December 2024.
12 ONS, Housing Purchase Affordability, UK: 2023, December 2024.
13 ONS, Housing Purchase Affordability, UK: 2023, December 2024.

FIGURE 7: **Youth home ownership rates have fallen most sharply in London and the South East**

Home ownership rates for family units aged 25-34, by region/nation and year: GB



NOTES: Data for Northern Ireland not available between 1994-95 and 2001-02 so has been excluded to enable consistent time comparisons.
SOURCE: RF analysis of IFS, Households Below Average Income (1961-94); DWP, Family Resources Survey (1994-95-2022-23).

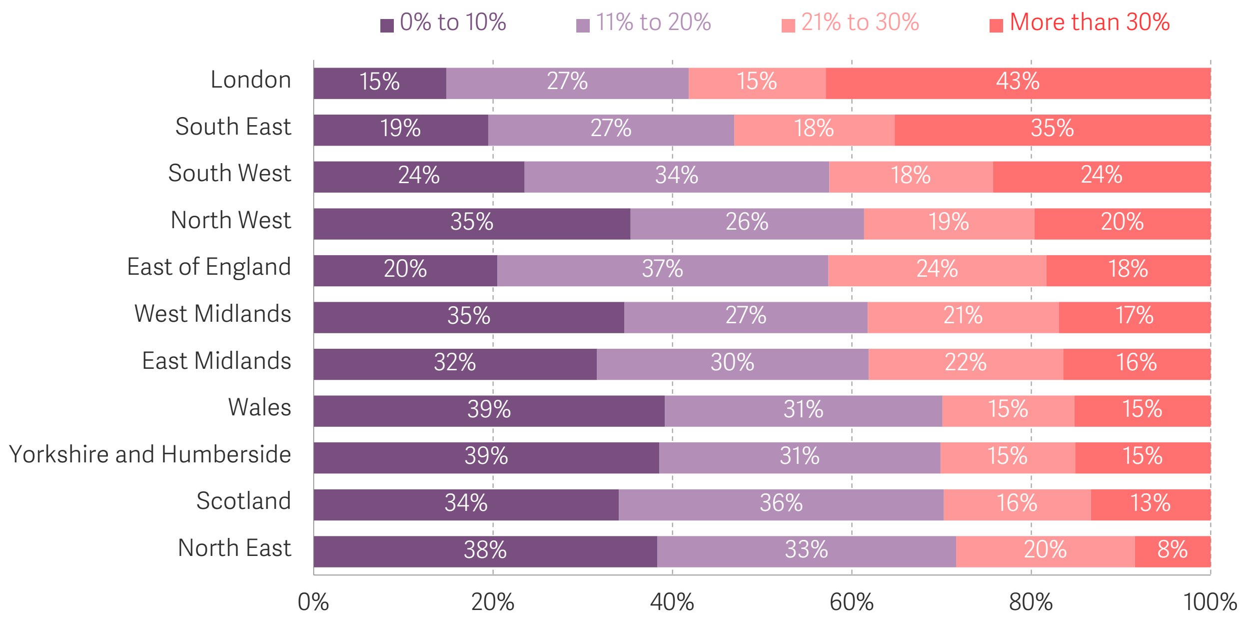
Regional differences in housing tenure and affordability significantly influence the share of income young people spend on housing. For example, housing affordability – both for buying and renting – is notably better in the North East. As of October 2024, the region had the lowest median monthly rent at £690, and the typical homebuyer needed to spend just five times their earnings to purchase a property.[14] With more affordable housing and higher home ownership rates, it's unsurprising that young adults in the North East face lower housing costs: in 2022-23, only 8 per cent of 25-34-year-olds in the region spent more than 30 per cent of their income on housing.

In stark contrast, housing costs in London and the South East place significantly more strain on young people's finances. More than a third (35 per cent) of young families in the South East and over two-in-five (43 per cent) in London spent more than 30 per cent of their income on housing (Figure 8). This is driven by a higher proportion of young people renting privately in these areas, where rents are the highest in the UK: £2,200 in London and £1,300 in the South East as of October 2024.[15] Additionally, those who have managed to buy homes in these regions have likely taken on higher loan-to-income ratios.[16]

14 Median monthly rent by region from ONS, Price Index of Private Rents, UK: monthly price statistics, November 2024. Median housing prices and incomes by region from ONS, Housing Purchase Affordability, UK: 2023, March 2024.
15 ONS, Price Index of Private Rents, UK: monthly price statistics, November 2024.
16 For more information, see chart C and chart D in: Bank of England, Financial Stability Report - Technical annex: evidence on the FPC's mortgage market Recommendations, December 2021.

FIGURE 8: **Young adults in the south of England spend the largest proportion of income on housing costs**

Housing costs as a proportion of income among 25-34-year-olds (excluding those living with parents), by region/nation: GB, 2022-23



SOURCE: DWP, Family Resources Survey (1994-95-2022-23).

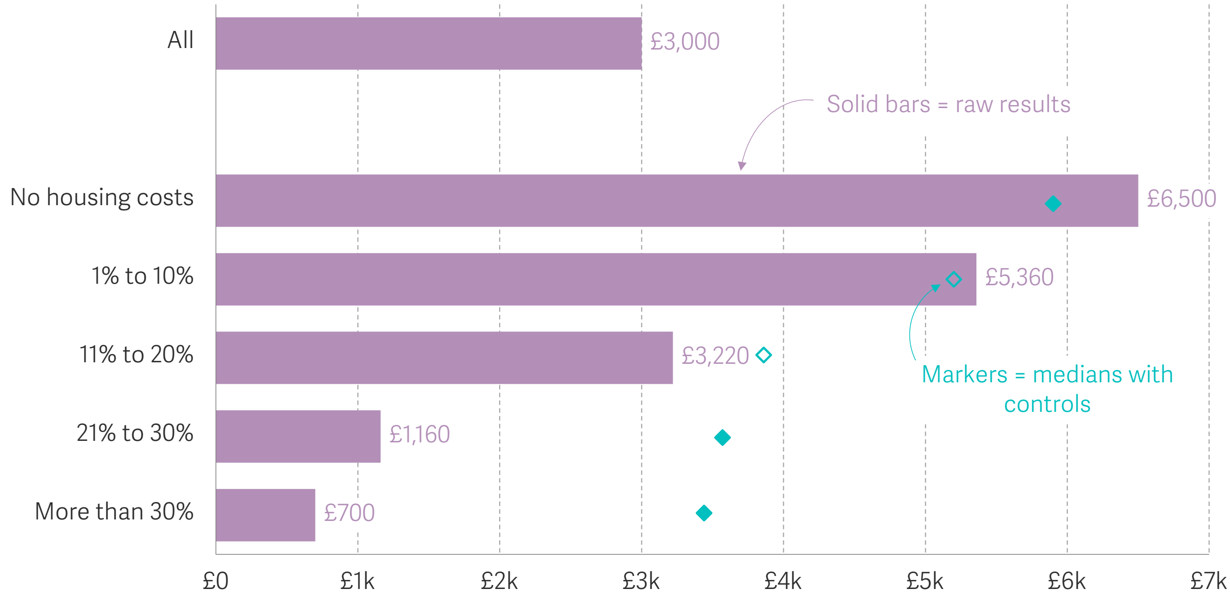
Those missing out on lower housing costs from home ownership tend to have lower financial resilience and worse mental health

We have shown that younger cohorts have seen a fall in the share of income spent on housing overall, but that this aggregate trend masks significant differences across income groups and regions. These disparities are important, as high housing costs in relation to incomes can undermine financial resilience and wellbeing.

To start, there is a clear link between the proportion of income spent on housing costs and precautionary savings. Figure 9 shows that, in 2018-20, the typical household headed by a 25-34-year-old had £3,000 in accessible savings, with this more than doubling to £6,500 for those with no housing costs. In contrast, those households that were spending more than 30 per cent of their income on housing typically had just £700 in savings. While other factors are certainly at play, this picture is consistent with higher housing costs contributing to a lack financial resources, leaving households more vulnerable to financial shocks. Indeed, even when accounting for factors such as income, employment, and gender, the relationship between greater housing expenditure as a share of income and lower precautionary savings persists, though to a lesser extent. When controlling for other factors, the precautionary savings gap between households with no housing costs and those allocating 30 per cent or more of their income to housing narrows from £5,800 to £2,460.[17]

FIGURE 9: **Higher housing costs are linked to lower precautionary savings**

Median precautionary savings among households headed by a 25-34-year-old, by housing costs as a proportion of income (gross of housing benefit, excluding principal repayment): GB, 2018-20



NOTES: Households are selected based on the age of the household reference person. Precautionary savings are defined as current accounts in credit, value of savings accounts, value of ISAs and value of national savings products and are measured at the household level. The markers show the median precautionary savings amount after controlling for income, age, employment status, gender and region, evaluated at the average values of all the factors that have been controlled for. Shaded markers indicate that the amount of precautionary savings held is statistically significantly different from amount of precautionary savings held by households with no housing costs. These differences may be partly explained by variations in tenure. When controlling for tenure, the negative relationship between housing costs and precautionary savings persists; however, the analysis does not provide enough evidence to confirm that these differences are statistically significant or distinguishable from zero.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

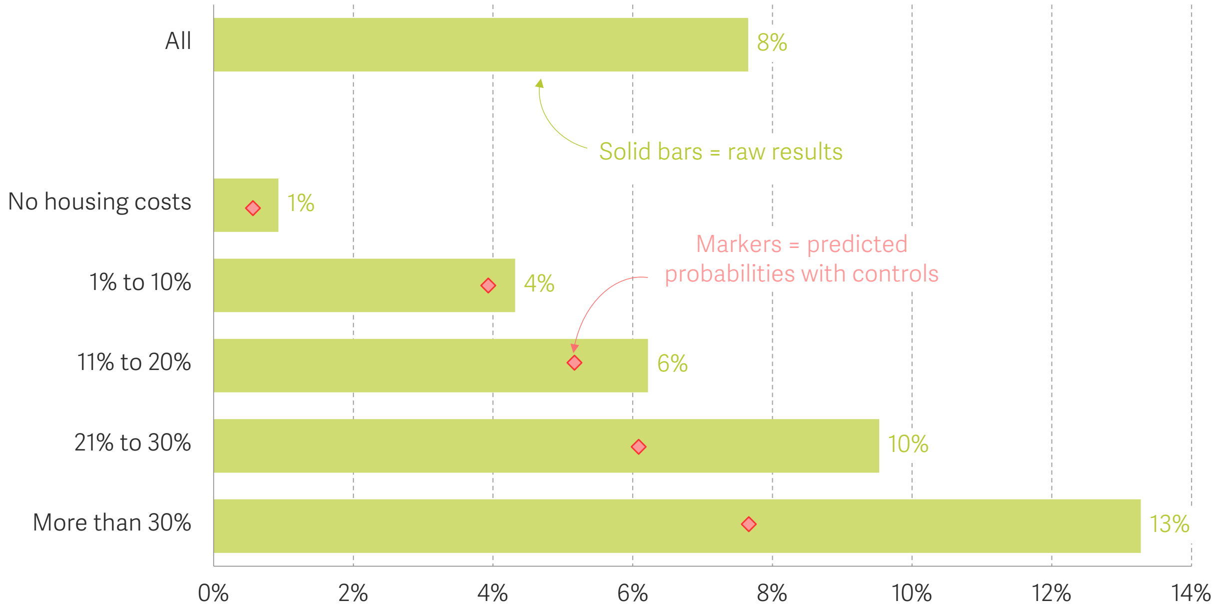
It is concerning that poorer individuals spend a larger share of their income on housing costs, especially given the link worse mental health. For example, Figure 10 shows that in 2018-20, 8 per cent of 25-34-year-olds reported feeling anxious. However, this varied significantly depending on housing costs: fewer than 1 per cent of those with no housing costs reported feeling anxious, compared to 13 per cent of those spending 30 per cent or more of their income on housing. Even after accounting for factors like income, employment, and gender, the disparity in mental health outcomes remains, though it is

17 This gap represents the difference in median precautionary savings by housing costs as a proportion of income after controlling for income, age, employment status, gender and region, evaluated at the average values of all the factors that have been controlled for, evaluated at the average values of all the factors that have been controlled for. This difference is statistically significant at the 95 per cent confidence level.

less pronounced (as indicated by the markers in Figure 10). Other work has shown that difficulty meeting housing payments has a detrimental impact on both mental health and sleep.[18]

FIGURE 10: **Higher housing costs are linked to worse mental health**

Proportion of 25-34-year-olds feeling anxious, by housing costs as a proportion of income (gross of housing benefit, excluding principal repayment): GB, 2018-20



NOTES: Households are selected based on the age of the household reference person. Proportions are calculated using household reference person only. The markers show the predicted proportion of people reporting they are anxious after controlling for income, age, employment status, gender and region, evaluated at the average values of all the factors that have been controlled for. Shaded markers indicate that the proportion of people reporting that they are anxious is statistically significantly different from the proportion of people reporting that they are anxious among those households with no housing costs. These differences may be partly explained by variations in tenure. When controlling for tenure, the negative relationship between housing costs and mental health persists; however, the analysis does not provide enough evidence to confirm that these differences are statistically significant or distinguishable from zero.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Moreover, it's not just housing costs that matter – poor housing quality also takes a toll on health, as we have shown in previous work. For example, those in poor-quality housing are 4 percentage points more likely to report poor general health compared to those not in poor quality housing (9 per cent versus 5 per cent) and 6 percentage points more likely to report poor mental health (16 per cent versus 10 per cent).[19]

18 K Mason, Housing insecurity worsens sleep and mental health, July 2024.
19 L Try, Trying times: How people living in poor quality housing have fared during the cost of living crisis, Resolution Foundation, April 2023

Policy should focus on tackling the barriers to home ownership and lowering rental costs

Rising home ownership rates in recent years have played a key role in reducing the share of income young people spend on housing. But this good news should be viewed in the context of a longer-term secular decline in home ownership rates among 25-34-year-olds. More than that, even the recovery in home ownership rates we have seen in recent years has been concentrated among higher-income families, widening the income gap between those who benefit from home ownership and those who do not. And stark regional disparities persist, with areas like London and the South East experiencing an acute housing-affordability crisis, given sky-high rents and house prices. As we have shown, these long-term trends of declining home ownership and a rising share of income spent on housing costs seem to be strongly associated with worse financial resilience and mental health.

Improving the housing circumstances of young people in Britain today should be a top priority for policy makers. To some extent, progress is being made, with the Government recognising the importance of boosting housing supply, and setting an ambitious target of delivering 1.5 million new homes by the end of this Parliament.[20] However, as we've highlighted in previous work, achieving this target would be historically unprecedented. Delivering 300,000 homes annually has never been achieved, even during the peak housebuilding years of the 1970s.[21] Beyond housing supply, the Government pledged in its manifesto to "introduce a permanent, comprehensive mortgage guarantee scheme to support first-time buyers who struggle to save for a large deposit, with lower mortgage costs".[22] This was part of the proposed 'Freedom to Buy' scheme, which aimed to help 80,000 young people onto the housing ladder.[23] However, no further updates have been provided on this scheme.

In addition, the Government can better support lower-income families with overly burdensome housing costs by re-linking Local Housing Allowance (LHA) to the current level of market rents. LHA determines the maximum housing support low-income private renters can receive through the benefits system, but its annual adjustments have been inconsistent since 2012-13. Although LHA rates were reset to cover the 30th percentile of market rents in April 2024, the previous Government announced plans to freeze them in nominal terms thereafter, and the current Government has not indicated any intention to revise this approach.[24] To go further in supporting low-income young

20 Labour Party, Labour Party Manifesto 2024, June 2024, and Ministry of Housing, Communities and Local Government, Planning overhaul to reach 1.5 million new homes, December 2024.
21 C Aref-Adib, J Marshall & C Pacitti, Building blocks: Assessing the role of planning reform in meeting the Government's housing targets, Resolution Foundation, September 2024.
22 Labour Party, Labour Party Manifesto 2024, June 2024.
23 H Sandercock, Labour unveils 'Freedom to Buy' pledge to get young people on housing ladder, MoneyWeek, June 2024.
24 A Clegg & L Judge, The Resolution Foundation Housing Outlook Q4 2024, December 2024.

people, the Government could eliminate the rule that means that a lower LHA rate is applied to single individuals under 35. This adjustment would provide much-needed relief to younger renters in the private sector, helping to bridge the gap between stagnant benefits and increasing housing costs.[25] If LHA is not regularly adjusted to keep pace with rising rents, significant gaps emerge between housing support and actual rental costs, as seen during the 2010s and early 2020s.

As we have demonstrated in this note, without meaningful action on to address barriers to home ownership and housing affordability, the lack of access to secure housing will continue to undermine the economic and social wellbeing of younger generations.

25 For most single people under the age of 35 Housing Benefit is restricted to Shared Accommodation Rate. The shared accommodation rate is lower than other LHA rates as it is designed to cover the cost of renting a room in a shared house. For more information see: https://www.gov.uk/housing-and-universal-credit/renting-from-private-landlord, accessed 10/12/2024.

Annex 1: Data citations

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