Title: Housing Tenure Outcomes of Young Adults in England Since 2000: Reviewing the Evidence

By

Mark Andrew

and

James Culley

Author affiliations
* Dr. Mark Andrew
Faculty of Finance
Bayes Business School
City, University of London
106 Bunhill Row
London EC1Y 8TZ

e-mail: mark.andrew.1@city.ac.uk

ORCID id: https://orcid.org/0000-0002-5256-4882

* Corresponding author

Dr. James Culley
Knight Frank LLP
55 Baker Street
London W1U 8AN

e-mail:james.culley@knightfrank.com

ORCID id: https://orcid.org/0000-0002-7863-0614

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Abstract

This paper examines the changes in housing tenure outcomes for young adults in England that have occurred since the 2000s, using secondary data and findings reported in the existing literature. We highlight the profound changes that have affected young adult housing decisions, ranging from boarder macro-economic conditions, higher education participation, labour market trends, government housing market interventions, mortgage lending practices and innovations. We conclude that the increase in their pathways to achieving housing independence and transitioning into homeownership will continue to persist and in the case of the latter, continued reliance on intergenerational transfers and taking out longer-term mortgages. We expect private renting to become established as permanent housing tenure in the near future. Several other potential implications are identified.

Introduction

Homeownership has long been a key UK policy goal, supported by government subsidies, tax incentives, initiatives for social tenants and first-time buyers, and policies aimed at making mortgages more accessible and affordable. Despite these efforts, the homeownership rate peaked at 73% in 2007 and fell to 65% by 2021, with a significant decline among young adults.

This decline was accompanied by a rise in private renting and living in the parental home, raising concerns about wealth inequality, social mobility, family formation, and intergenerational relationships within households. Homeownership is important for wealth accumulation, and its decline deepens wealth disparities, impacting on life chances and well-being. There are further concerns about the security of tenure, suitability of accommodation and affordability of private rental housing.

This paper examines the changes in housing outcomes for young adults in England that have occurred since the 2000s, drawing on data from the Censuses, English Housing Survey (EHS), and the Survey of English Housing (SEH), as well as the existing literature. Section one reviews housing tenure trends among young adults, while the next section provides the macro-economic context to explain these shifts. Section three explores factors influencing these outcomes, such as higher education participation, affordability and parental support. The fourth section addresses issues related to Generation Rent before concluding.

Section 1: Household Formation and Housing Tenure Choice Trends

Housing tenure choices are closely linked to the decision to form an independent household (Ermisch 1999, Meen and Andrew 2002). However, among young adults, actual tenure outcomes often do not fully reflect housing preferences due to financial and demographic constraints, leading many to remain living with their parents.

[Insert Figure 1: Trends in Housing Tenure, Living in the Parental Home, Real House Prices and Housing User Cost Rate]

Figure 1 Panel A shows the overall distribution of housing tenure over four decades. Owner-occupation (OO) rates in England increased from 58% in the early 1980s, peaked at 70% in the early 2000s, and fell to 62% by 2021. The social rented sector (SRS) declined from 31% to 17%, mainly during the 1980s following the Right-to-Buy initiative, while the private rented sector (PRS) grew to 20% by 2021, after falling to under 10% in the late 1980s and early 1990s. These general trends mask significant changes among age groups, particularly the young.

Panels B and C highlight the sharp decline in homeownership rates among young adults aged 20-24 and 25-34, reversing the gains of the 1980s. In the late 1980s, 67% of 25-34-year-olds who had formed households owned their homes, but by 2021, this figure dropped to just under 40%. Meanwhile, private renting for this age group rose from 10% in the late 1980s to 43% in 2021. Older age groups (45 and above) maintained or increased homeownership until the early 2000s, after which rates began to decline. The 20-24 age group saw the largest homeownership declines in the 1990s, and the 25-34 age group experienced their biggest drop in the 2000s. Homeownership rates for both age groups have not returned to the levels seen in the early 2000s. The change in the average age of first-time buyers reflects these trends, rising from 28 in the 1980s to 32 since 2010. Social housing as an alternative tenure also fell, especially for the 20-24 age group.

Panel D shows a rise in young adults living with their parents, over a quarter in 2022 compared to under a fifth in 1996. Young women are more likely to leave the parental home than men, often due to relationships with older partners, but in recent years, their likelihood of living in the parental home increased more sharply. This shift is partly explained by higher education participation, better career prospects, and delayed family formation (Stone et al. 2011). The rise of 'boomerang children' (ONS 2016, Green 2018) has contributed to declining household formation rates among young adults. Economic uncertainty partially explains the increase in adult children in their thirties with lower qualifications living in the parental home (Stone et al. 2011).

These long-term trends highlight the following: (i) young adults are living with parents longer; (ii) homeownership transitions are occurring later; and (iii) more young adults are spending extended periods in private renting, which may have become a permanent tenure for some.

Social housing remains largely inaccessible to young adults due to need-based eligibility criteria. We will focus on explaining household formation, homeownership, and private renting outcomes among the 25-34 age group since 2001, as most in this group have completed their education and their housing outcomes reflect choices, preferences and constraints in labour and housing markets, and family formation.

Section 2: The Macro-Housing Context

The UK housing market is characterised by several cycles of real house price fluctuations and a long-term upward trend, making housing significantly more expensive (Figure 1 Panel E). Although the financial crisis of the late 2000s and the cost-of-living crisis of the early 2020s led to a drop in real house prices, they remained well above the levels seen in the 1980s and 1990s.

The housing user cost rate captures the financial attractiveness of homeownership. This rate is a more comprehensive measure than the mortgage interest rate as it includes expected capital gains, relevant taxes, tax reliefs and subsidies, expenditure on maintenance and depreciation (Dougherty and van Order 1982). A lower user cost rate indicates lower homeownership costs. Figure 1 Panel F displays the general downward trend in the comprehensive housing user cost rate until the credit crunch in 2008, after which it rose. Comparing the user cost rates including and excluding credit restrictions reveals that lower interest rates, expected capital gains and credit availability made buying a home financially attractive. Additionally, leveraging through high loan-to-value ratios enhanced capital gain returns, a strategy more difficult to replicate in financial markets due to the expertise required for managing risks. Another attraction came from its ability to provide collateral for further borrowing and support retirement (Crawford 2018).

Falling nominal interest rates, stable inflation, rising disposable incomes, expanded credit, and expectations of capital gains in the early 2000s led to a prolonged surge in house prices. The credit crunch triggered nominal house price declines, reduced real incomes, increased unemployment, and negative capital gains and resulted in some owner-occupiers experiencing negative equity.

The credit crunch and stricter lending regulations after it raised the user cost rate to much higher levels despite low interest rates from Quantitative Easing (QE). The Mortgage Market Review (MMR) in 2014 introduced stricter borrowing criteria and phased out riskier products such as interest-only and self-certification loans, which increased the challenge for those with limited financial resources to obtain a mortgage. QE further distorted returns among safe and risky assets by reducing the long-term real risk-free rates and made investment in housing more attractive (Miles and Monro

2019). Households less reliant on earnings were better positioned during and after the crisis to access credit at low interest rates, leverage and profit from capital gains with economic recovery. The favourable environment encouraged second home purchases and buy-to-let investments. The number of second homes rose from 226,000 in 2001 to 452,000 in 2021 (English Housing Survey), while nearly 2 million buy-to-let loans were issued (UK Housing Review). The ONS (2021) noted that these properties often competed directly with those sought by young adults, driving up demand and exerting upward pressure on house prices.

Section 3: Explaining Housing Tenure Outcomes

This section examines the reasons behind observed young adult housing tenure outcomes.

Higher Education: Participation

The lower household formation and young adult homeownership rates among the 20-24 age group since the 1990s, is largely due to increased participation in full-time higher and further education. About 75% to 80% of full-time higher education students are under 25 years old[1]. Government policies, education reforms, increased demand for skilled workers, and the social norm of attending university as a “rite of passage” have driven this rise. Higher education participation rates increased from 19.3% in 1990 to 33% in 2000, and to 38% in 2022/23. UCAS[2] recorded 271,000 university acceptances in 1994, 358,000 in 2001, 492,000 in 2011, and 563,000 in 2022. Consequently, the proportion of the population holding a degree rose from 11% in 1993 to 33% in 2023.

While studying full-time, young adults typically lack the financial resources and desire to establish independent households, often relying on parental support for finance and accommodation. According to HESA[3], 19% to 20% of all full-time students live with their parents, 27% to 30% in shared rented accommodation, and only 15% to 19% in their own residences. HESA reported that 15% to 18% pursue further study, which

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[1] Higher Education Standards Authority (HESA) annual reporting for all degrees (undergraduate and postgraduate) over the period 2017/18 to 2021/22.

[2] Universities and Colleges Admission Service.

[3] HESA only report for the academic years between 2014/15 to 2021/22.

reduced household formation and housing demand in the short term. Many return to the parental home after completing their studies, particularly graduates who had taken out student loans (de Gayardon et al. 2022).

There are longer-term financial implications too. Andrew (2010) noted two potential impacts on graduates' housing tenure outcomes. The first concerns the accumulation of student debt and the second the upward revision in permanent incomes (life-cycle earnings).

Higher Education: Student Debt

The introduction of tuition fees and replacement of maintenance grants with student loans led to an increase in average student debt in England from £2,690 in 1999/00 to £44,490 in 2022/23[4]. Student loan repayments are income contingent. Repayments impact on disposable income and in turn affect mortgage eligibility and the ability to save for a deposit. De Gayardon et al. (2022) attributed this to explaining their finding that young adult graduate non-borrowers were more likely to be homeowners than those that had student debt.

Student debt does not affect credit scores but could have influenced attitudes toward other debt aversion. Research on this channel is scarce in the UK context. De Gayardon et al. (2022) did conclude that graduate borrowers who were comfortable with debt were less likely to live with their parents and more likely to rent compared to those that were averse to debt.

Higher Education: Graduate Wage Premium

Housing demand in the UK is more responsive to income than house prices (Meen 2011), and higher-income young adults prefer to own a home over renting (Andrew 2012, Suh 2020). Graduates benefit from a wage premium. Britton et al. (2018) estimated that obtaining a degree increases average net lifetime earnings by 20%, roughly £130k for men and £100k for women after accounting for student loans and taxes[5]. Most managed to secure graduate jobs (Blundell et al., 2000, 2016, 2022).

[4] The student debt figures cited above exclude debt incurred outside the Student Loans Company and therefore likely to be higher.
[5] Net discounted earnings.

HESA data (2012/13-2016/17) shows that 65% to 70% of full-time graduates were employed within a year of graduation, while the ONS reports that high-skilled employment rates for young adult graduates (age 21-30) have remained around 57% compared to 18% for non-graduates.

Yet the increase in graduate numbers was accompanied by reduction in young adult homeownership rates. However, graduates do not immediately benefit from a wage premium. Firstly, economic cycles affect graduate employment and earnings. Elias et al. (2021) found that a third of young adults who started undergraduate degrees in 2005/06 were underemployed by 2011, though this rate dropped to 16% by 2019. High-skilled employment rates for graduates aged 21-30 fell by 7 percentage points during the credit crunch, recovering by 2015 and fluctuating during the pandemic. The second reason is that graduate wage gains mainly occur when they are 30 to 40 years old (Britton et al. 2018). Thirdly, the financial returns from higher education have become more varied since 2000. The delay in graduates benefiting from a wage premium highlight the importance of current income housing tenure transitions and meeting housing costs.

Housing Affordability

There are various dimensions to housing affordability, particularly concerning homeownership. It is often assessed by the proportion of household income required to meet housing costs, such as the housing user cost or rent. Mortgage interest payments have been relatively low in the last two decades, despite the large rise in house prices. Our own calculations using the SEH and EHS over four periods (2001-2005, 2006-2010, 2011-2015 and 2016-2019) revealed that median young adult mortgage interest and rent to household income ratios remained relatively stable at around 17% and 28% respectively[6], with young adult renters incurring significantly higher costs compared to homeowners only after 2015[7].

[6] The IFS reported that young renters spend a higher proportion of their salary on rent (27%) compared to young homeowners on mortgage payments (15%). The Nationwide Building Society's first-time buyer mortgage payments to earnings ratio has hovered around 33% since 1983.

[7] This just examines the observed outcome and does not control for quality differences in accommodation.

However, these figures obscure changes in household employment and income distribution since 2001. The share of young adult homeowners with two full-time earners increased by 10 percentage points, from 38% to 48%, while single earner homeowning households dropped by 12 percentage points, from 44% to 32%. Among private renters, there was a 6 percentage point rise in households with two full-time earners, reaching 28%, a 3 percentage point increase in households with a full-time and part-time earner, to 10%, and a 4 percentage point decline in single-earner households, to 51%. Despite higher employment levels, housing affordability did not improve in either tenure.

[Insert Figure 2: Trends in Young Adult Housing Tenure Outcomes]

They partly reflect structural changes in the labour market that led to the decline in the relative earnings of young adults compared to older age groups, though there was some recovery for the 22-30 age group after 2012 (Figure 2 Panel A). Young adults, whose primary source of disposable income is earnings, have been disproportionately affected. Previous research by Meen and Andrew (2002) showed how this impacted young adult household formation and homeownership rates in the early 1990s, while Andrew (2010) examined its interaction with lender-imposed credit constraints in the late 1990s and early 2000s.

The ONS further reported that recent generations of young adults have been more likely to be in part-time, temporary and zero-hour contact employment compared to comparable age groups in earlier generations. Insecure employment and less stability in earnings discourage living in independent housing and make it harder to buy a home (Gathergood 2011, Aguda and Ebohon 2021), and partially explains why housing affordability did not improve with more ‘work rich’ households.

Figure 2 Panel B displays the change in the income distribution of young adult households in private housing tenures. Over the longer term, there have been reductions across all income levels among young adult homeowners, particularly in the middle and bottom. Homeownership rates in the higher income quintiles rose in the early 2000s but have since declined, which is likely to be due to the larger deposit requirements. The opposite trend occurred in private renting, as households in the bottom two income quintiles peaked around 2015 and then fell by 7 percentage points.

These declines in both tenures took place despite the rise in work rich households in both tenures.

Credit Availability

Homeownership affordability includes credit availability considerations. Mortgage lenders impose borrowing restrictions to address adverse selection and asymmetric information problems. House price rises since 1998 have made it harder for young adults to meet lenders' requirements. While credit was generally cheap and available until the credit crunch, this overlooks their position, as they had little financial wealth, little or zero housing equity, and were at the beginning of their life-cycle earnings trajectory. Lenders tightened their criteria after 2007, and in 2014 stress testing[8] and loan-to-income (LTI) limits were introduced, and risky mortgage products[9] phased out. The decrease in general credit availability since the credit crunch is displayed by the comprehensive housing user cost measure in Figure 1 Panel F.

Financial Transactions Costs

Financial transaction costs, upfront expenses payable upon completion of a transaction, are much higher for homeownership. Rises in house prices made paying Stamp Duty Land Tax[10] (SDLT) more burdensome. For young first-time buyers (FTBs), SDLT presented an additional financial hurdle, while for young repeat purchasers, it reduced the housing equity available for a deposit. During this period, the government frequently used SDLT to regulate the housing market, offering tax holidays to stimulate homeownership, concessions for FTBs, and imposing surcharges from 2016 to discourage second homeownership and buy-to-let investments. SDLT concessions to FTB coincided with their increased activity. Scanlon et al. (2019) found that family (parental) financial support given to young adults was used to pay housing transactions costs.

Staying longer in a home lessens the impact of housing transaction costs (Haurin et al. 2002). Although information on planned residence duration is limited, actual mobility

[8] Stress testing was abolished in August 2022, but many lenders have continued to assess the ability of prospective borrowers to meet future mortgage commitments in some form.
[9] 100% mortgages.
[10] A tax on the transfer of ownership a property to another person or entity. The amount payable is based on a percentage of the purchase price and the applicable tax schedule.

rates reveal clear differences among age groups. Over the last three censuses, mobility rates for young adults aged 25 to 34 have remained stable but were more than double those of older age groups[11]. High mobility among young adults made homeownership less financially attractive.

Family Support

Young adults had to have larger deposits to buy a home which is reflected by the increased reliance on financial savings from disposable income as well as other sources for deposits in Figure 2 Panel C. One of the most striking trends to emerge since 2001 has been the role of family support. The diagram reveals that between 2015 and 2019, 30% to 38% of young adult homeowners relied on direct family support to buy a home. These included gifts ("inter vivos" transfers), family loans and inheritances (testamentary transfers). Most direct family financial support have been gifts, in most instances triggered when adult children wished to buy a home (Leslie and Shah 2022). Donor parents tended to be affluent homeowners, and their recipient adult children highly educated (Gregg and Kanabar 2022). Boileau and Sturrock (2023) reported that parental transfers were discretionary and targeted toward adult children's current financial needs. Scanlon et al. (2019) reported that 68% of parental financial assistance went to FTBs and 27% to repeat purchasers.

Family loans, often flexible and interest-free, played a role. L&G (2023) reported that 18.3% of family support came from a no-interest loan and 4.8% from a loan with interest. Most inheritances were received when adult children are over the age of 50, which explains why only a very low proportion of young adult homeowners had used it as a source of their deposit in the diagram.

Young adult recipients of direct family financial support bought their first homes earlier, purchased more expensive homes than they could have afforded on their own and used it to put down larger deposits to reduce mortgage payments. Boileau and Sturrock (2023) found that most FTBs used the additional funds as a higher deposit as opposed to buying a more expensive home. Suh (2023) concluded that only

[11] Between a fifth and a quarter of young people aged 25 to 34 in England had lived at a previous address within the last twelve months.

significant transfers of £15,000 and above were used for house purchases in the 2010s.

Indirect Family Support

Young adults adopted alternative housing strategies to save for a home deposit, which included living with parents, sharing a home or lodging. Living with parents, especially rent-free, is a form of indirect financial support. West et al. (2017) found that this arrangement substantially reduced living costs and enhanced young adults' ability to save. Suh (2020) estimated that the value from living in the parental home was approximately £30,000 in the mid-2010s and reported that it significantly increased the likelihood of transitioning into homeownership compared to those who lived independently in rented housing. Cost-saving through sharing a home also facilitated saving for a deposit and became significant in determining when young adults entered homeownership, particularly after the financial crisis (Druta and Ronald 2016).

Help to Buy

The government attempted to encourage homeownership through various 'Help to Buy' (HTB) schemes[12], introduced from 2013. They were aimed at addressing credit constraints. The most impactful being the HTB equity loan, which helped buyers without sufficient deposits to purchase new-build homes. By the scheme's end in 2023, it had supported the purchase of 387,195 dwellings, about 31% of all private sector housing completions in England. However, the financial value of HTB loans and HTB transactions were much lower than those funded by direct family support (L&G 2023). The National Audit Office (2019) noted that the HTB equity loan scheme was poorly targeted, as half of users could have bought a home without it. The scheme's impact on affordability is debatable, as new-build homes often carry a premium, which, in areas with limited housing supply, was capitalised into higher prices (Carozzi et al. 2020).

[12] They include the HTB ISA, Mortgage Guarantee, Shared Ownership and Equity Loan schemes. Official figures reveal that 65% of HTB ISA users were aged between 24 and 35, which as used for a total of 370,120 dwelling completions.

Demographics

Both demographics and economic factors are important in determining housing tenure outcomes. Historically, married and cohabiting households with dependent children chose owner occupation as their preferred tenure. The change in household composition of young adult households in each housing tenure is displayed in Figure 2 Panel D. Since 2001, there has been a shift from single to couple households in both private renting and homeownership. The proportion of single households has decreased by 6 percentage points in homeownership and 9 percentage points in private renting. Private renting is increasingly catering to families with children, with the proportion of couple households with children rising from 15% to 26%. There has been a slight increase in lone parents renting privately, while the proportion of couple households with children in homeownership has remained relatively unchanged. Berrington et al. (2019) found that young adult women in private renting were as likely as those in homeownership to enter motherhood.

Co-residence (multi-person households) among young adult private renters declined by 3 percentage points after 2010, suggesting it became less popular, while young adult household profiles in the social rented sector remained stable, as this sector primarily serves those in housing need.

Marital status is indicative of household stability. Figure 2 Panel D shows that most young adult homeowners were married (46%), and this rate remained stable. Cohabiting households increased in both homeownership (from 25% to 32%) and private renting (from 23% to 30%), with married households in private renting also rising by 6 percentage points to 27%. Additionally, the proportion of single, never-married young adults dropped sharply, by 6 percentage points in homeownership and 9 percentage points in private renting. Private renting also became less popular among single separated and divorced households, decreasing from 4% to just over 1% during this period. The household composition and marital status trends are likely to reflect housing affordability issues, as two-earner households increased in both tenures.

Housing Tenure Transitions

Housing tenure outcomes are influenced by transitions into and out of different tenures. Figure 2 Panel F charts the shifting patterns of young adult transitions into private housing[13]. Mobility rates within homeownership declined significantly, from 42% to 25%, likely due to higher transaction costs for repeat purchases[14] and delayed moves up the housing ladder as young adults had children later. Conversely, mobility rates within private renting increased sharply, from 59% to 78%, driven by longer stays in the tenure and frequent moves due to short lease lengths – the proportion of young adult private renters expecting it to take five or more years to buy a home rose by 9 percentage points after the mid-2000s[15].

Homeownership transitions from private renting became more important, with the rate increasing from 27% to 46%. A smaller increase was observed among those moving from the parental home, which rose by 5 percentage points. Most transitions into private renting originated from the parental home, a pattern that remained relatively stable. Generally, securing stable employment was a key factor in moving from the parental home to independent housing. Transition rates into private renting from owner-occupation fell from 10% to under 5%.

Exits from homeownership are typically temporary, such as waiting for a home purchase to complete, or triggered by unexpected events - union dissolution or unemployment. Moves related to union dissolution are often urgent and financially constrained, leading to a higher likelihood of changing tenure, with private renting being the most common independent housing destination (Mikolai and Hill 2018). Stone et al. (2014) found that union dissolution was an important factor in childless men and women returning to the parental home, but this was less true for mother, who have tended to move into social renting (Mikolai and Hill 2018). Unemployment or economic inactivity also played a role moving back to the parental home (Stone et al. 2011, 2014).

Section 3: Generation Rent Issues

"Generation rent" describes the housing challenges faced by recent cohorts of young adults who have been priced out of purchasing a home, pay a high percentage of income on rent and face financial difficulties from high living costs, student loans and

[13] The SEH and EHS only provide reliable information of transitions into a housing tenure.
[14] Repeat purchases have different tax schedules to FTBs and pay more SDLT.
[15] The same rise is observed for private renters in 20-24 age group.

low wage growth. But there have been suggestions that the expansion of the private rented sector to become the second largest housing tenure also reflected a change in attitude, particularly among young adults. The arguments are based on private renting offering greater flexibility, less commitment from having to repay a mortgage or worry about expenditure on maintenance (Bailey 2020). The tenure is suitable for adults who expect to change jobs or locations more frequently, are in less stable relationships and in less stable employment.

There is mixed support for these arguments. Figure 3 Panel A displays buying expectations and explanations for not wanting to purchase a home among young adult (25-34) private renters. The proportion expecting to buy a home has broadly remain the same, as has the expected time it would take to make the purchase after 2006. Their main reason for not buying a home was because of its unaffordability, which rose from just under 50% in the mid-2000s to 67% in the late 2010s[16]. Cited reasons supporting the attraction of private renting mentioned above generally remained low and declined after the early 2000s.

[Insert Figure 3: Generation Rent Issues]

Figure 3 Panel B displays young adult satisfaction levels in their accommodation, housing tenure and area they lived in. The majority of private tenants have been satisfied with their accommodation but until recently less so with their tenure. The large rise in satisfaction levels of private renting as a housing tenure, from 42% to 84% is suggestive of a change in attitudes. In both accommodation and housing tenure, homeowners expressed higher levels of satisfaction. The high and improved satisfaction levels among private tenants regarding accommodation and tenure respectively may indicate quality improvements in dwellings. The proportion of rental properties rated EPC C increased from 30% to 58% since 2008, partly driven by legislation mandating a minimum EPC rating of E for all new tenancies from 2018 and all existing tenancies from 2020 and increased purpose built rented stock. Current Build-to-rent (BTR) investment trends and concerns about transition risks suggest increases in the quality of rented stock in the future.

[16] The main reason for not buying a home was not asked in earlier surveys.

When it came to the areas they lived in, private renters reported satisfaction levels comparable to homeowners. For young adult households, both renters and homeowners, the desire to live in a better neighbourhood or move to a larger dwelling is a significant reason for relocating, as indicated by EHS and SEH data. For private renters, this suggests that renting allowed them to live independently in higher-quality dwellings and more desirable neighbourhoods than they could have afforded if buying. Figure 3, panel 3, illustrates the distribution of young adults' private housing tenure by house price combined deciles. In 2001, young adult homeowners predominated in all areas, but between 2001 and 2011, this shifted. A greater proportion of young adult households began renting in both very cheap and very expensive areas (MSOA), while the distribution of tenure across other areas became more evenly balanced. In contrast, the proportion of young adults renting in the social rented sector across these areas remained stable.

Section 4: Post-Covid Concerns

In this section, we outline three major concerns which have emerged. Following the initial lockdowns in 2020, house prices surged as buyers sought larger suburban homes, leading to a roughly 25% increase in prices in England by mid-2022. However, by mid-2023, this growth had slowed, and some regions saw slight price declines due to rising interest rates and inflation. In contrast, rents continued to rise sharply, with the most expensive areas experiencing the steepest increases (Figure 3, Panel D). Previously, rental growth had remained relatively stable.

Housing tenure decisions involve balancing the risks associated with future rent and house price fluctuations (Sinai and Souleles, 2005). Due to the nature of leases, private tenants are subject to annual rent variations, while homeowners can avoid this uncertainty by locking in their housing costs. However, fluctuations in house prices affect homeowners' net wealth (Poterba and Samwick, 1997; Flavin and Yamashita, 2002) and consumption patterns (Ortalo-Magné and Rady, 2002). In England, declines in nominal house prices had significant effects on homeowners' wealth and consumption in the early 1990s, but government and lender interventions during the mid-2000s Global Financial Crisis (GFC) and the COVID-19 pandemic mitigated such impacts, diminishing the perceived advantages of renting.

The expected length of stay in a residence also influences net housing risk. Rent risk is higher for those planning long-term stays due to potential rent fluctuations, while highly correlated spatial house prices reduce house price risk since sale and repurchase prices offset each other. For young adult households, renting may offer flexibility due to shorter residence horizons, but as most of their moves are within short distances[17], the hedging benefits of renting for them is limited. House price risk only becomes relevant when a home is sold without purchasing another, a concern often far in the future and thus heavily discounted.

The substantial increase in housing supply needed to alleviate housing demand pressures is unlikely to materialise in the near future. Post-Covid rental pressures highlight the issue whether new homes should be built for ownership or renting, and the type of accommodation required. Unlike homeownership, where larger accommodations are common, private rentals are typically smaller and dominated by flats (Figure 3 Panel D). According to the 2011 and 2021 censuses, only 40% of private rentals have more than two bedrooms compared to 75% of owner-occupied homes, despite the increase in the number of young families renting privately.

Expanding the rental supply will require significant investment. The buy-to-let sector is currently undergoing structural changes as individual investors either exit the market or convert to limited companies to gain tax advantages (Hamptons 2022). Increased regulation has prompted some landlords to professionalise, while others have left the market altogether. Future growth in rental housing is expected to come primarily from large-scale investments in BTR schemes which has grown rapidly over since 2012. To date, they have been mainly urban apartments targeting young professionals[18] and charging premium rents (JLL 2018). There are signs that this might be changing, as 40% of BTR investment in 2023 has been in single-family housing; but existing single-family schemes also charge a rental premium (Knight Frank 2024).

While most young adults still anticipate eventually owning homes, the expectation has declined among private renters and those living with parents since the mid-2000s, by

[17] The EHS and SHE record that 72% of homeowner and private renter household moves were within 10 miles over the last two decades.

[18] Nearly half of occupiers were aged between 26-35, Knight Frank Research.

approximately six and fourteen percentage points, respectively (Figure 3, Panel F). These expectations remain higher than the current national homeownership rate, suggesting potential future revisions and possible disappointment. Notably, there has been no significant change in homeownership expectations among young adult social renters[19]. The diagram also shows a growing expectation among young adults in the private rental sector to remain long-term renters.

Conclusion

Many young adults continue to aspire and expect to own a home, driven by the financial benefits it offers compared to renting. However, their expectations exceed the current rate of homeownership, indicating potential future disappointment.

High house prices and borrowing restrictions disproportionately impact young and lower-income adults, lowering their effective demand. Government policies aimed at promoting homeownership when new housing supply is relatively inelastic, and interventions preventing house prices from fully correcting have inadvertently decreased long-term affordability and the appeal of private renting by keeping house prices high.

As a result, transitioning to homeownership increasingly relies on parental wealth transfers, raising concerns about intergenerational wealth inequality issues but also issues relating to its distribution among siblings and donor parents' own ability to meet their future needs in old age.

The mortgage market continues to innovate. In order to alleviate the mortgage repayment burden caused by higher house price levels, lenders are offering longer-term mortgages and house buyers are taking them out, but longer exposure to loan payments introduces longer-term financial risks to both, and for buyers increases the cost of financing a purchase.

[19] Homeownership expectations among young social renters is surprisingly high, but this could be attributable to affordable homeownership schemes available to them such as Right-to-Buy.

It is unlikely that the trends of private renting and extended stays in the parental home will reverse. The private rental sector will need to adapt to the growing number of young families by offering more suitable accommodation and greater tenure security including protection from rent volatility. Increasingly, it looks like there will be a greater reliance on BTR investment to meet them. Larger scale investors are concerned about rental income stability rather than maximisation, implying they may be more willing to offer greater tenure security with predictable rent increases.

Finally, two broad patterns are emerging in parental co-residing: better-educated young adults use parental co-residence as a stepping stone to homeownership, while those with fewer skills are increasingly priced out of independent housing. The latter raises family formation policy issues.

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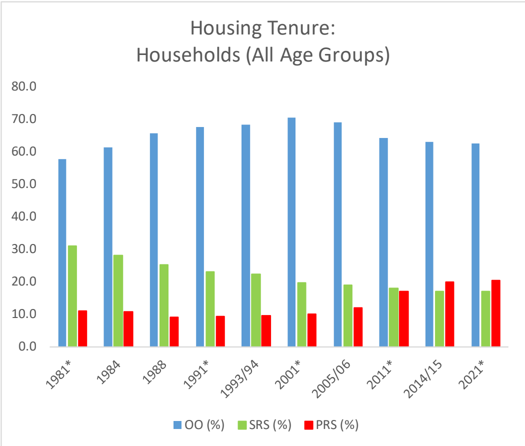
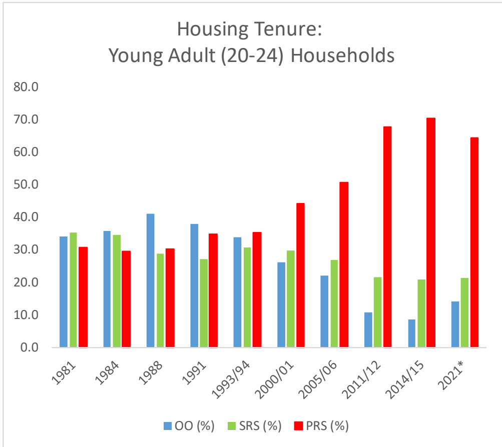
Figures

Figure 1: Trends in Housing Tenure, Living in the Parental Home, Real House Prices and Housing User Cost Rate



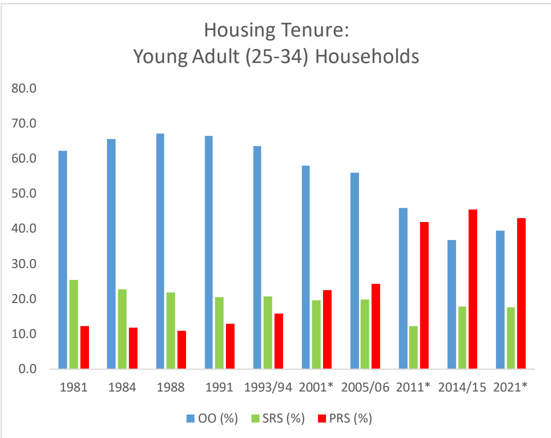
Source: Labour Force Survey, Survey of English Housing, *Census

Panel A



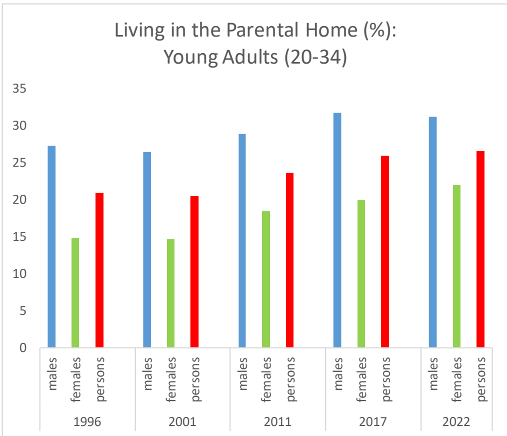
Source: Labour Force Survey, Survey of English Housing, *Census

Panel B



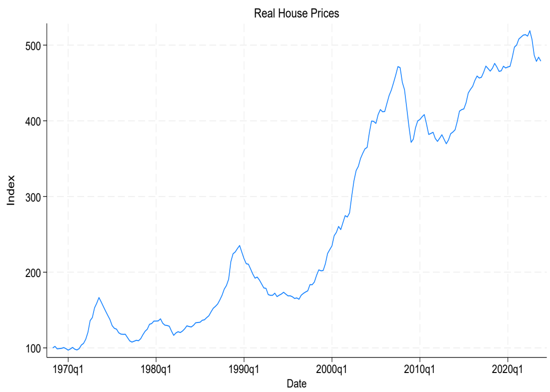
Source: Labour Force Survey, Survey of English Housing, *Census

Panel C



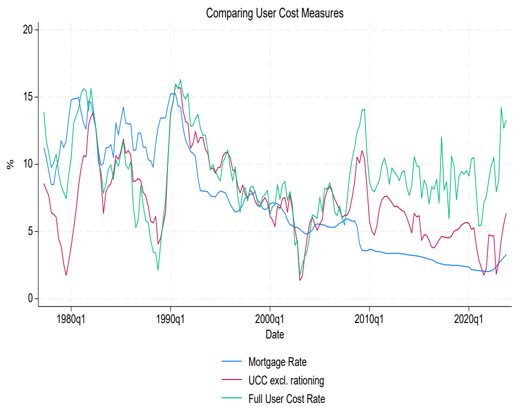
Source: ONS

Panel D



Source: ONS

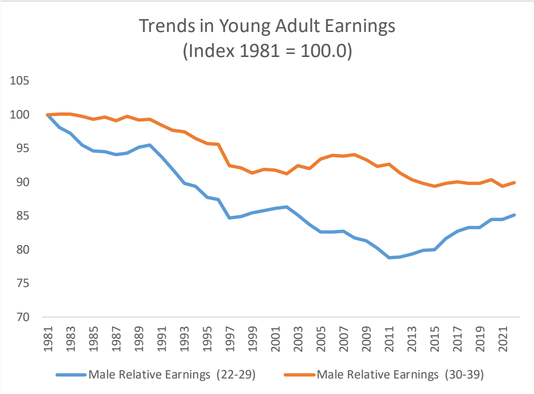
Panel E



Source: ONS, Refinitiv, authors own calculations

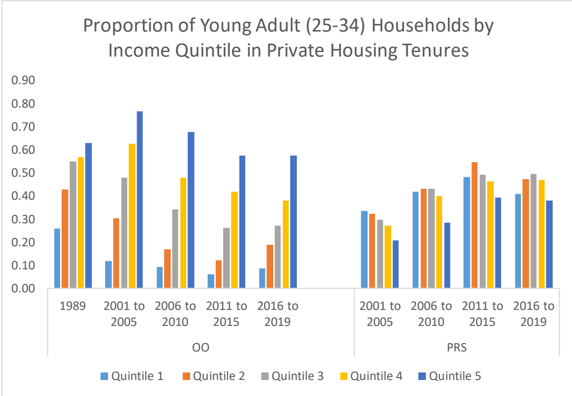
Panel F

Figure 2: Trends in Young Adult Housing Tenure Outcomes



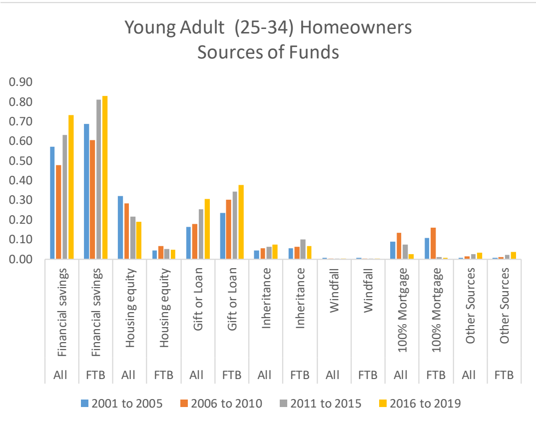
Source:ONS

Panel A



Source: SEH and EHS

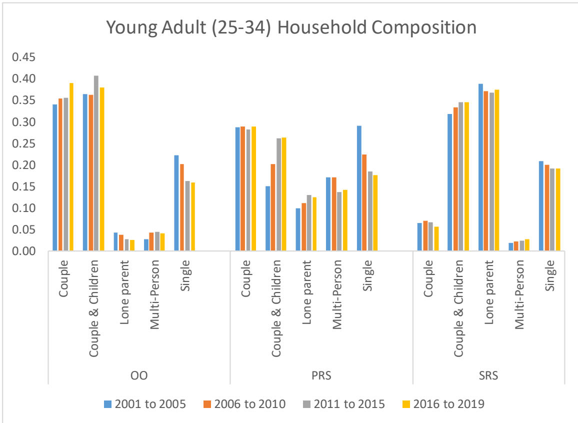
Panel B



Source: SEH and EHS

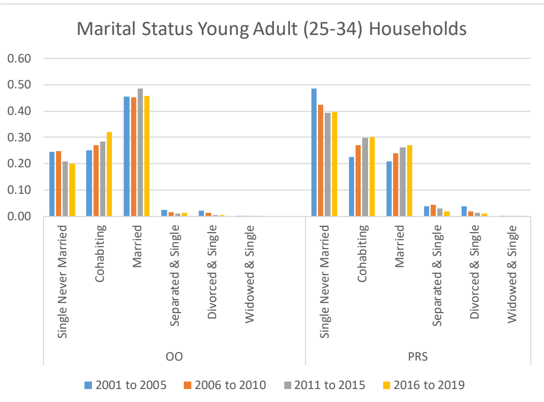
Note: FTBs refer to previous accomodation being non-owner occupied

Panel C



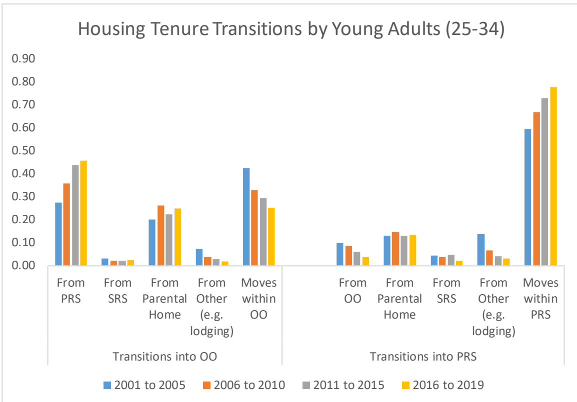
Source: SEH and EHS

Panel D



source: EHS and SHE

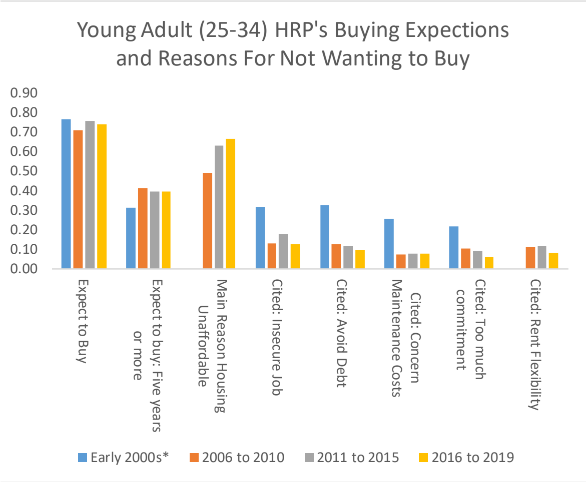
Panel E



Source: SEH and EHS

Panel F

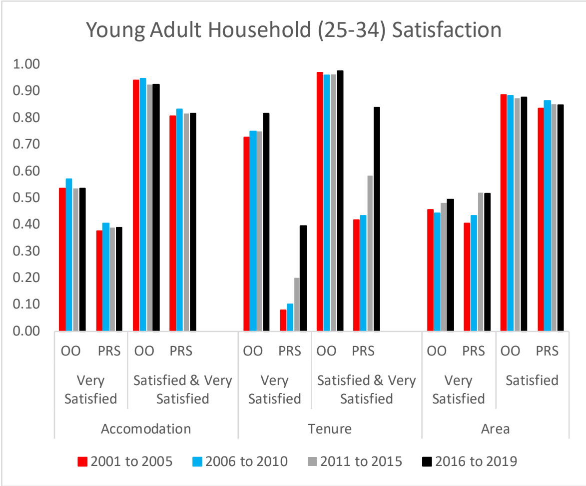
Figure 3: Generation Rent Issues



Source: SEH and EHS

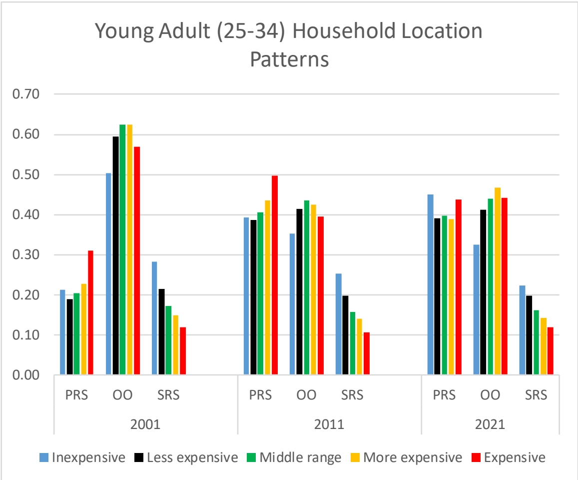
* Information not gathered by SEH in 2001, 2003,2004

Panel A



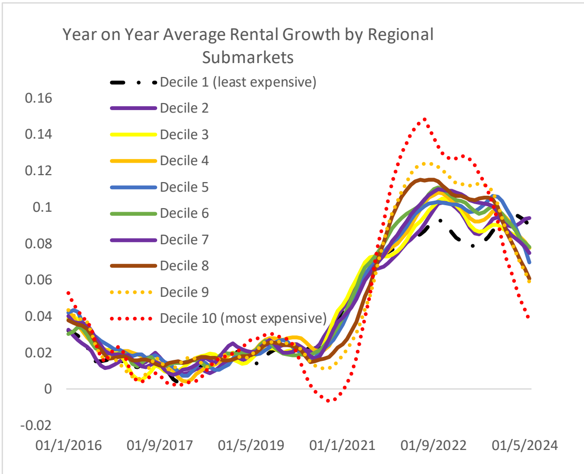
Source: SEH and EHS

Panel B



Source: Census

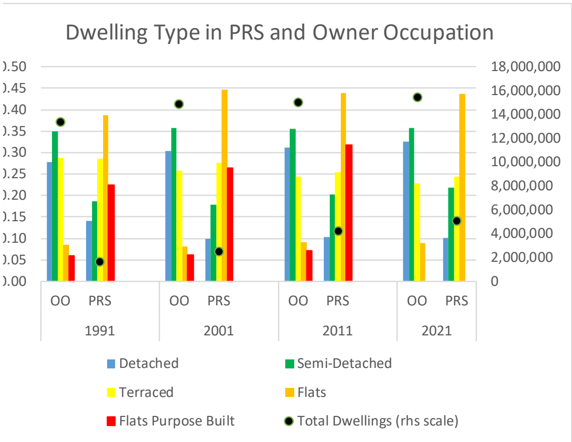
Panel C



Source: Census

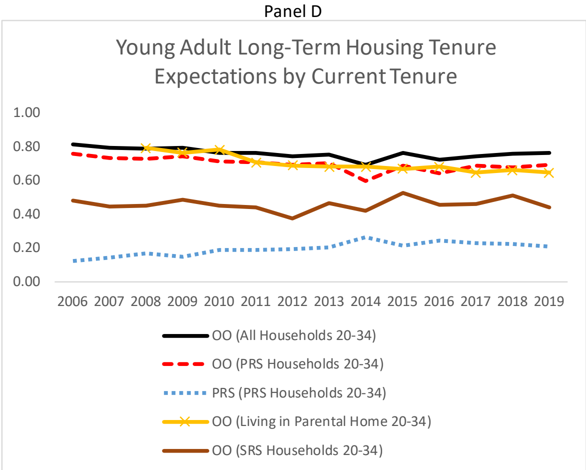
Note: 2021 census has not released information distinguishing converted and purpose built a

Panel D



source: Authors own calculations using Rightmove data

Panel E



source: EHS and SHE

Panel F