

DEMAND SIDE POLICIES TO TACKLE HOUSING AFFORDABILITY IN THE UNITED KINGDOM

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INTRODUCTION

Between 2014 to 2019, the median house price increased in tandem with the average annual wage. The housing prices have surged on average, around 31 percent, while the wage only raised by 6.7 percent during the same period.

The problem associated with the affordability of the UK housing market are:

1. The high disparity between the income growth and house prices, threatening the ability of young generation or first-time buyers to afford a house
2. A low additional housing supply

Kensington, City of London and Westminster, and Chelsea and Fulham are the three areas in London with the highest median house price in March 2019 reaching up to £1,400,000



APPROACH

Drawing on 650 parliamentary constituencies of the United Kingdom Datasets from the House of Commons Library

METHOD

- Ordinary Least Square (OLS) Regression for:
1. The rate of house ownership, as a dependent variable
 2. House prices, as a dependent variable

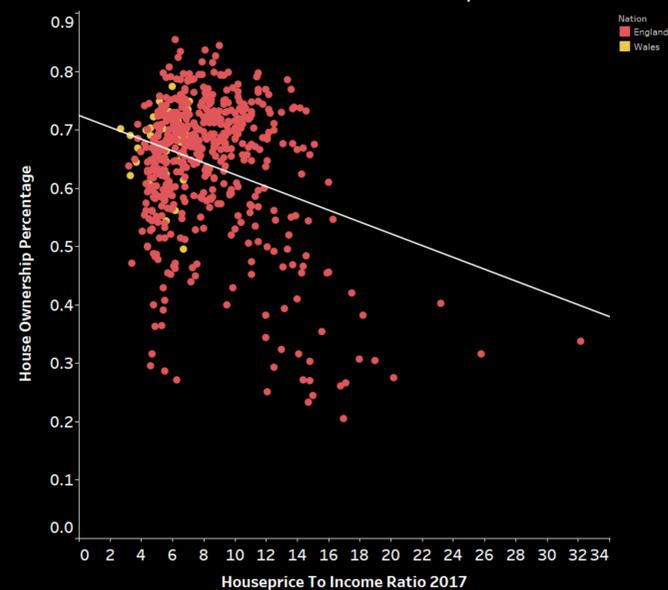
POLICY OBJECTIVE

1. Objective 1: Increase the rate of house ownership for the younger generation
2. Objective 2: Stunt the growth of house prices

DATA VISUALIZATION

Graph 1: Higher house price-to-income ratio and house ownership

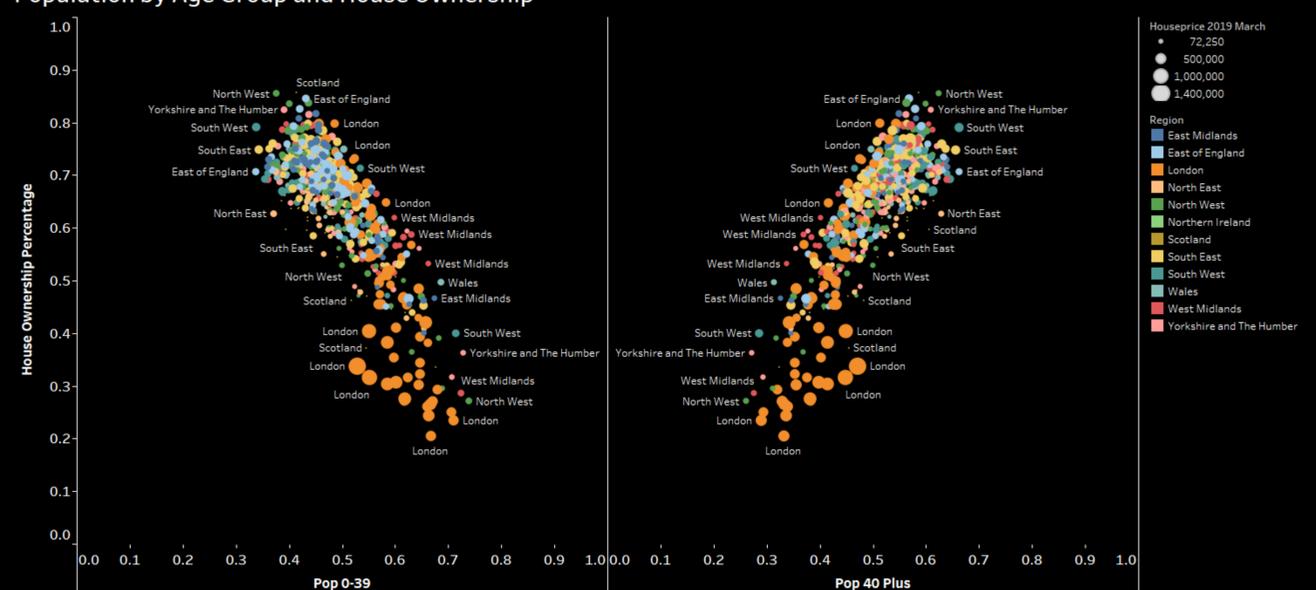
Household to Income Ratio and House Ownership



Graph 1 shows that the higher the house price to income ratio, the smaller the percentage of people who can afford their own house

Graph 2: Young generation (Population below 40 years old) are less likely to own a house compared to older generation (Population above 40)

Population by Age Group and House Ownership



Graph 2 shows that London areas have the lowest percentage of house ownership for both generations, but the impact is more apparent for the young generation who are less likely to own a house

MULTICRITERIA ANALYSIS

	Immigration Cap	First-home, government-subsidized mortgages to younger, first-time homebuyers
Objective 1: Increase the rate of house ownership for the younger generation	LOW	HIGH
Objective 2: Stunt the growth of house prices	AMBIGUOUS	HIGH

Table 1: Multi-Criteria Analysis of Policy Alternatives

ANALYSIS

Nations that implement the First Home, a government-subsidized mortgage scheme (a discount of at least 30 percent) to help younger and first time buyers who struggle to switch from private rental to homeownership, show a further 3.4% reduction in the percentages of the household that rent privately in comparison with the absence of the program.

It is less likely that adopting an aggressive immigration cap will reduce the pressure on housing demand.

There is considerable uncertainty about the impact of immigration on house prices and a sign of endogeneity between these variables. A study said that while immigration may affect the price of housing in a specific area, the price of housing itself likely affects immigration decisions (Vargas-Silva & Fernández-Reino, 2019)

CONCLUSION

1. Growing demand and relatively low supply growth have contributed to the housing market crisis in the UK
2. Policy Recommendations: Providing government-subsidized mortgages to younger, first-time home-buyers would help them switching from renting to own a house.