

Creating Resilience

Twenty years on from the Barker Review: Is the housing market still broken?

REPORT

MARCH 2024



Introduction

20 years on from the Kate Barker review, significant challenges remain in the housing market. We are not building enough homes to meet demand, housing affordability has worsened, and the rate of home ownership is falling.

The [Barker Review of Housing Supply](#) was published in March 2004. In it, renowned economist, Kate Barker highlighted that the UK had experienced a long-term upward trend in real house prices of 2.4% pa, over the preceding 30 years. Not only creating affordability problems, but the volatility of the housing market also exacerbated problems of macroeconomic instability and has had an adverse effect on economic growth. Barker recommended increasing the delivery of new homes in England by between 70,000 and 120,000 each year to help lower the rate of house price growth and mitigate other problems.

Since the review, and relative to the targets set out in it, we have undelivered between 1.5 and 2.5 million homes. And while real average annual house price growth has lowered, affordability has worsened. The average house price-to-earnings ratio across England has increased from 5.12 in 2002, to 8.28 in 2022, according to the Office for National Statistics. As a result, the share of owner-occupiers has fallen as home ownership has moved further out of reach for many households.

In this report, we set out the fundamental flaws that underpin the British housing market. This report marks the first in a series of articles in which we consider 'how to fix the broken housing market' and is accompanied by the first three in the series. These are:

1. [Should we introduce rent controls?](#)
2. [Should we restrict overseas buyers?](#)
3. [Should we tighten the regulations for holiday and short-term lets?](#)

2003		2023
£139,000	Average House Price	£302,000
5.92	House Price: Earnings Ratio	8.28
3.75%	Base Rate	5.25%
5.53%	Average Mortgage Rate (75% LTV)	5.01%
£637pcm	Average Mortgage Payment	£1,327pcm
35%	Mortgage Payments as % of income	44%
£22,600	Average first-time buyer (FTB) deposit	£68,700
0.6	Deposit as proportion of income, FTB	1.2
2.93	Loan to Income ratio, FTB	3.68
71%	Proportion of Owner Occupiers	65%

Source: ONS, Bank of England, UK Finance, DLUHC, CBRE

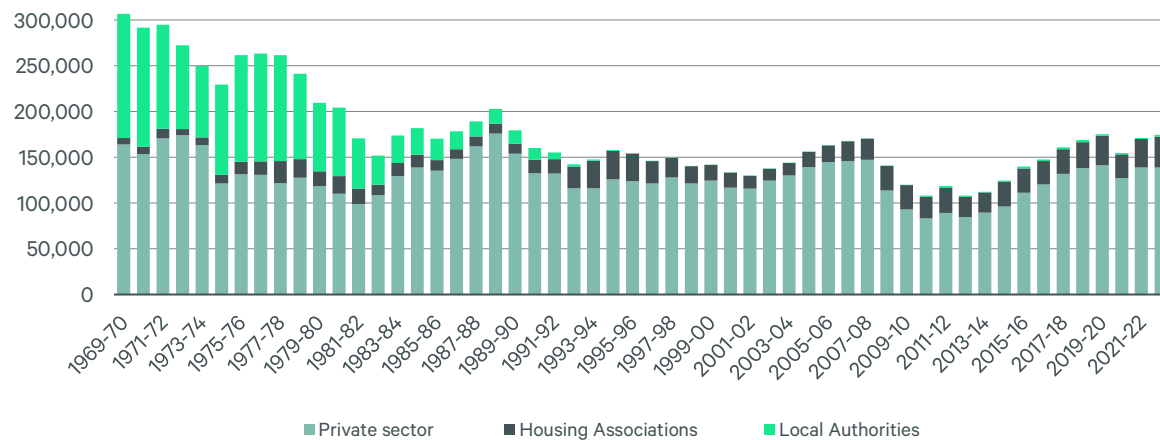
Has housing supply improved since the Barker review?

The level of private home building is historically volatile largely mirroring the economic backdrop. Still, there was a clear decline in the level of home building in the thirty years up to 2000. In the 70s, an average of around 141,000 homes were built each year by the private sector. This had declined by 12% to 124,000 in the 90s. The fall is even more stark looking across the entire market due to the decline in the local authority home building programme; this created a 42% fall in all home completions.

Over the same period, there was a 2.4% pa, a relatively high average rate of real house price growth. This led to a deterioration in affordability, with only 37% of households in England being able to afford to buy a house compared with 46% in the late 1980s.

Kate Barker concluded that private sector home building in England would need to increase to between **195,000** and **245,000** homes per annum to bring the real rate of price growth down. Barker suggested this should be facilitated by wholesale reform of the planning system, and changes to infrastructure provision and taxation.

House building: completions, England

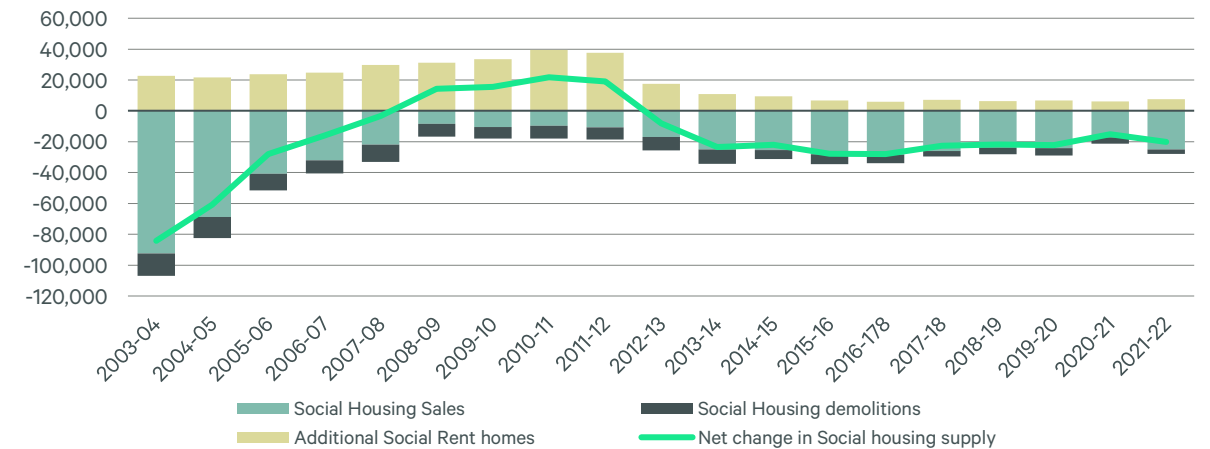


Source: ONS

But despite the recommendations, subsequent levels of home building has never reached those rates. Even in the most buoyant years, fewer than 150,000 homes have been built a year by the private sector. And in the six years post-global financial crisis, an average of 90,000 homes were built each year. In total around 1.5 million fewer homes have been delivered than Barker's lowest benchmark target suggested (2.5 million lower than her higher target). Moreover, the population of England has increased by around 2.3 million more than had been factored into the original Barker analysis.

There are also challenges in the private and social rental housing sector. Right to buy and other similar schemes have led to the sale of over 2.2 m social homes. This, combined with low building rates has led to a 333,000 fall in the total number of social homes since the publication of Barker's report. This has contributed to a marked increase in overcrowding in this tenure. In addition, around a quarter of private tenants now claim housing benefits.

Net change in social housing supply, England



Source: DLUHC

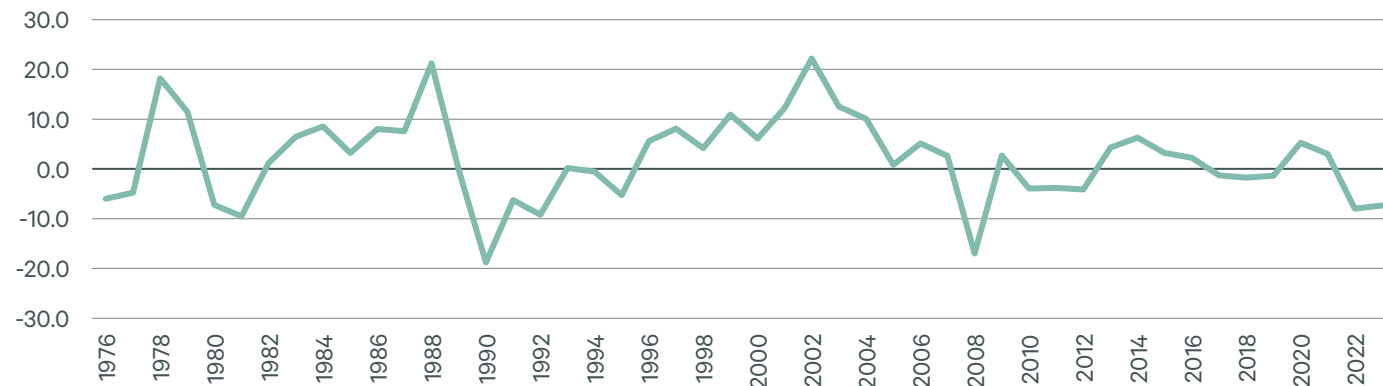
Despite slower real house price growth, affordability has worsened

Positively, even though housebuilding rate have failed to meet its target, the average rate of real house price growth has fallen to 0.5% per annum since 2003, according to Nationwide. This is down from an average of 4.2% over the preceding 20 years. However, less positively, affordability has worsened. Earnings have failed to keep up with price growth and the house price to earnings ratio has increased from 5.12 in 2002, to 8.28 in 2022. This reflects a steady increase in mortgage loan to income ratios for first-time buyers, which now average 3.68 compared with 2.93 in 2003. This has allowed homebuyers to take out ever larger mortgages despite steady income levels.

The affordability challenge is made more acute by more stringent loan-to-value ratios. Post global financial crisis, first-time buyer deposits increased to a benchmark of 25%, whereas in the 80s and 90s 95% mortgages were commonplace; in 1991 around [40% of new lending was at or above 90% LTV, this compares with less than 20% in 2022](#). This has meant the deposit has become one of the main barriers to home ownership. The average deposit stood at £45,800 in 2003 and has since increased by 125%, to £103,100.

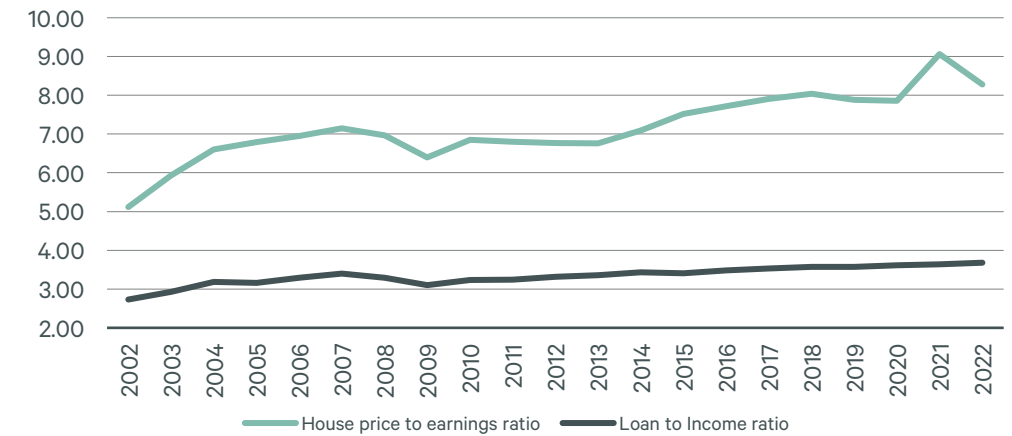
So, despite more muted real house price growth, the affordability challenge persists and has contributed to an increase in the average age of first-time buyers up to around 33 from 29 in 1974, according to UK Finance. In addition, there has been an overall fall in the proportion of owner-occupiers in England, from 71% in 2004 to 65% in 2023.

Real House Price Inflation, UK



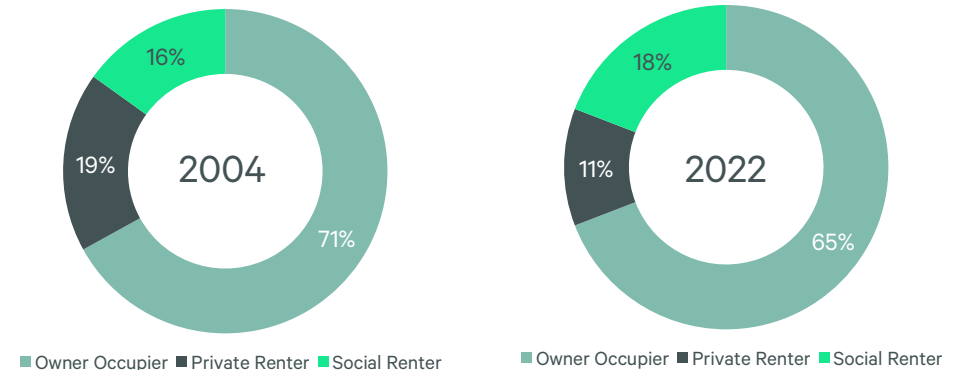
Source: Nationwide

House price to earnings and FTB Loan to income ratio, England



Source: ONS, UK Finance

Tenure composition, % of households, England



Source: English Housing Survey

So how can we fix the broken housing market?

The housing market faces many obstacles. Reforms to the planning system have been much-discussed over the last two decades. The key recommendations from Kate Barker's report were centred around making it easier and faster to gain planning permission to boost development activity.

However, planning decision speed has continuously slowed over the last decade. Overall, almost 60% of major planning applications were decided within 13 weeks in 2012. That has fallen to just 20% in 2023.

Local planning authorities have consistently cited a lack of personnel and resource to deal with the volume of planning applications. According to the latest RICS Construction and Infrastructure Market Survey, over half of respondents, on average since 2012, say planning and regulation is a factor in limiting development activity.

The constant carousel of housing ministers has also not helped with the efficiency of the planning system. Since 2000, a total of 24 different ministers have been appointed and have been in the role for an average of 372 days, with the most recent five averaging 125 days in the position.

The cost of planning and regulatory burden for developers has also increased. This partly reflects the Common Infrastructure Levy, Section 106, affordable housing provision, ESG requirements and other local community provisions. As a result, there is now a significant strain on the viability of many development projects.

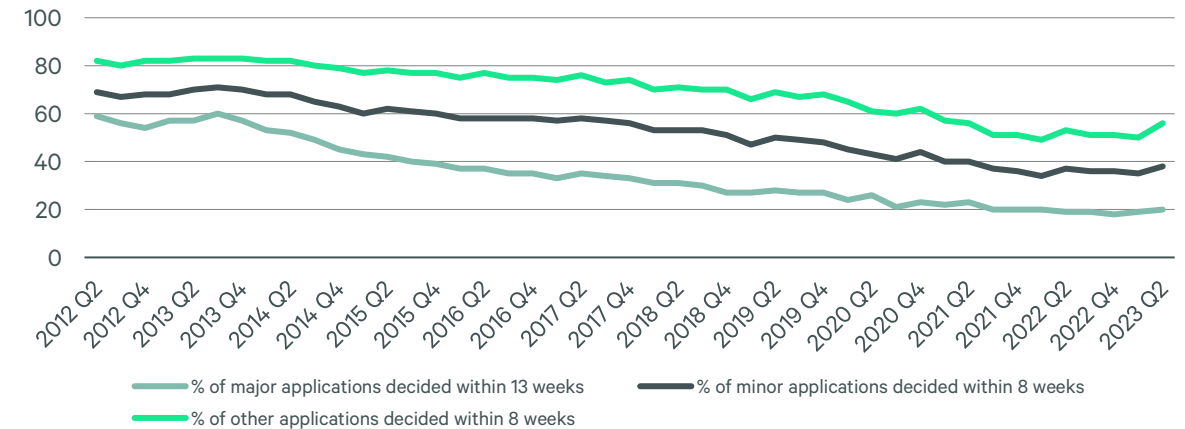
Clearly, these are significant challenges that need to be overcome, which will take considerable time to work through the system. Still, the debate rages on with politicians, academics and industry players often suggesting interventions they hope will improve housing supply and affordability. In this series of reports, we consider several of these interventions to evaluate whether they might be worth pursuing.

Upcoming articles include:

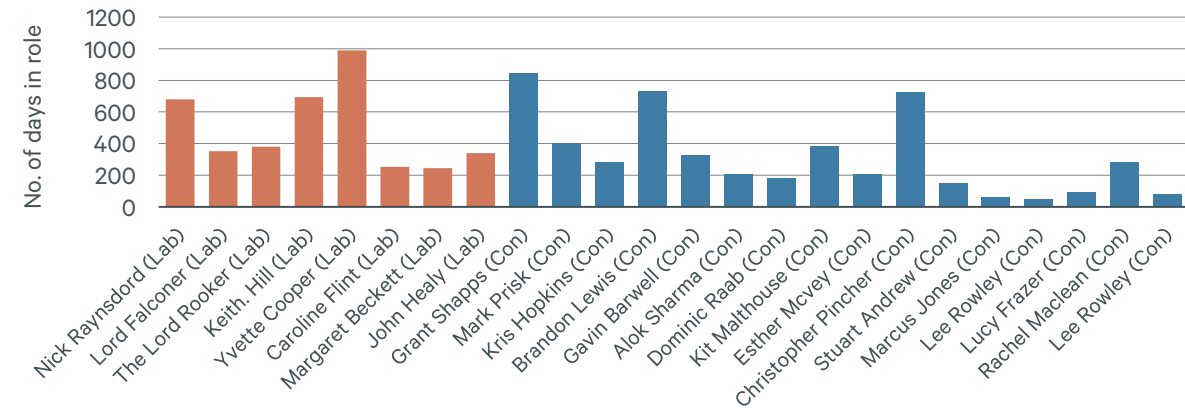
- Should we build more homes on the Green Belt?
- Should we restrict overseas buyers?
- Should we introduce rent controls?
- Should we tighten the regulations for holiday and short-term lets?

And while there is unlikely to be one silver bullet perhaps, we might arrive at a menu of options that would start to improve the functioning of the British housing market.

Planning decision speed, UK



Housing ministers since 2000



Source: Molior, DLUHC, CBRE Research

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