

# England's Housing Crisis: A Misdiagnosed Problem?

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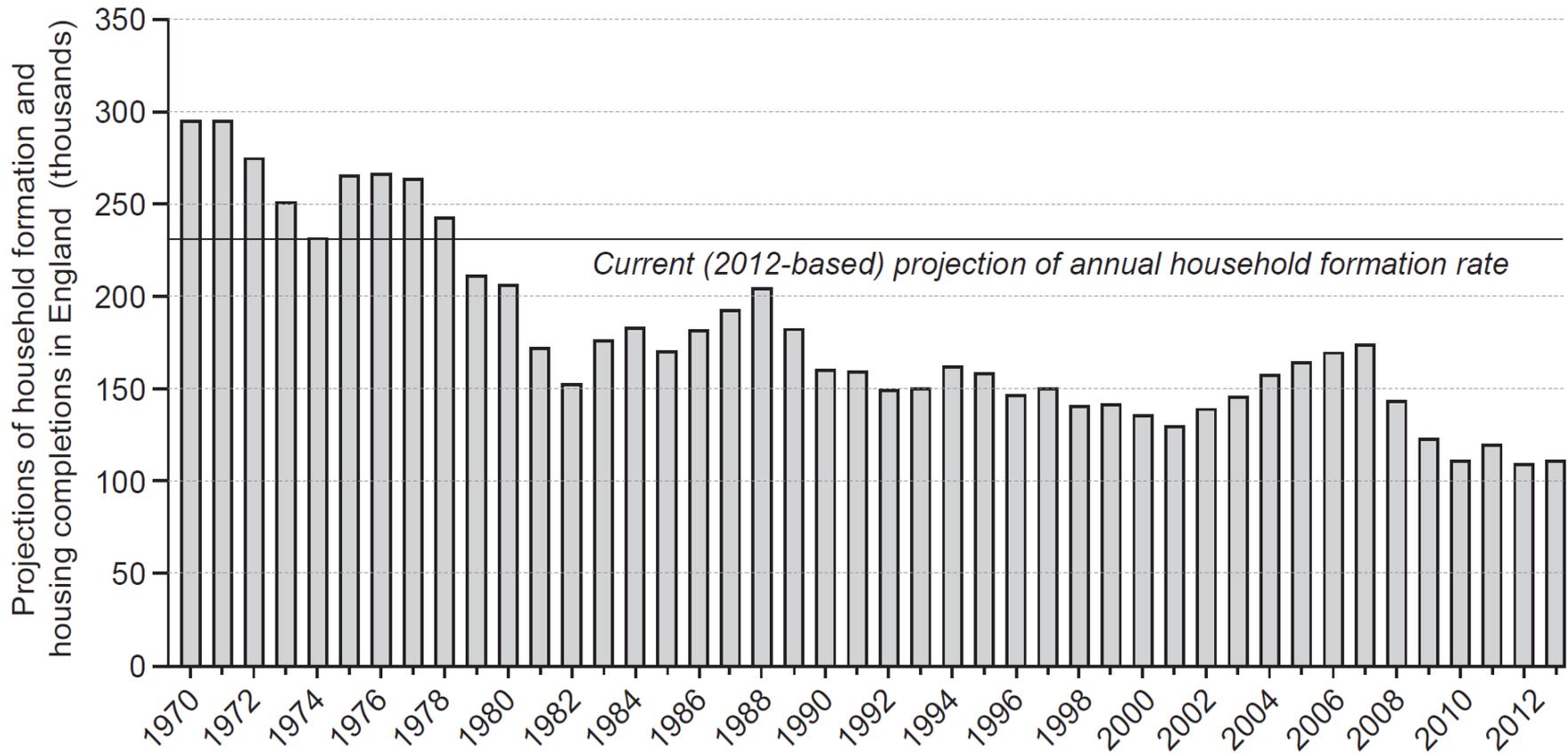
# Sequence

1. England's Housing Crisis – the standard diagnosis
2. Hyper-consumption and over-investment, mainly in London
3. **Processes:** wealth inflow and concentration, tax treatment and inciting ownership / investment
4. **Interventions:** planning, land and property taxes
5. Conclusions

# 1. The Housing Crisis

- Coming out of the 2008-10 ‘banking problems’;
- A deepening affordability crisis:
  - Rapidly rising house-prices, centred on London;
  - Spiralling rents (now averaging £2,600 pcm) for London homes, frequently above 50% of earnings;
  - Rises in those earnings running way behind, for most;
  - Restricted mortgage lending (requiring 20-30% deposits);
- Affordability is the focus of debate, popularly attributed to *weak housing supply*

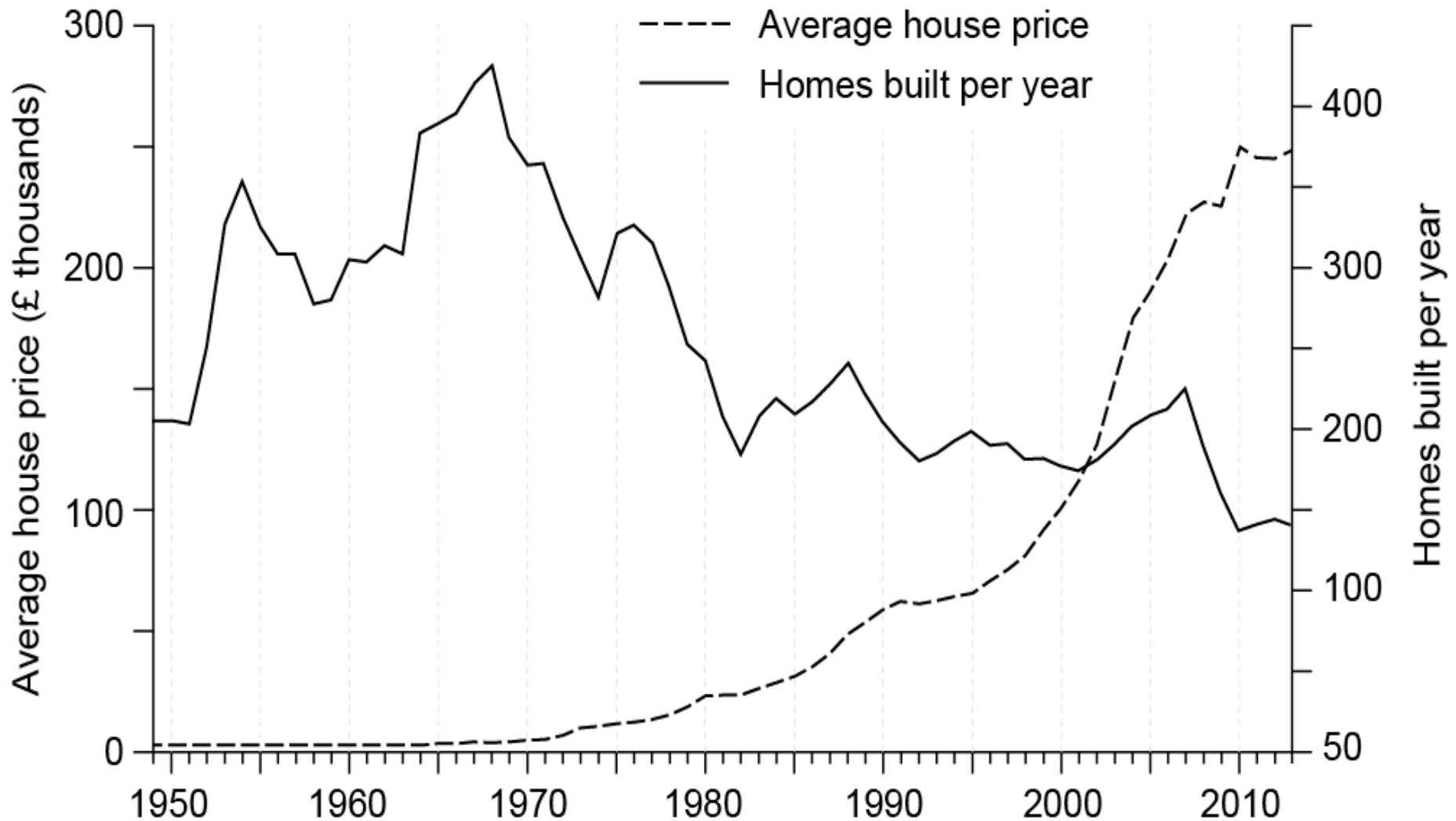
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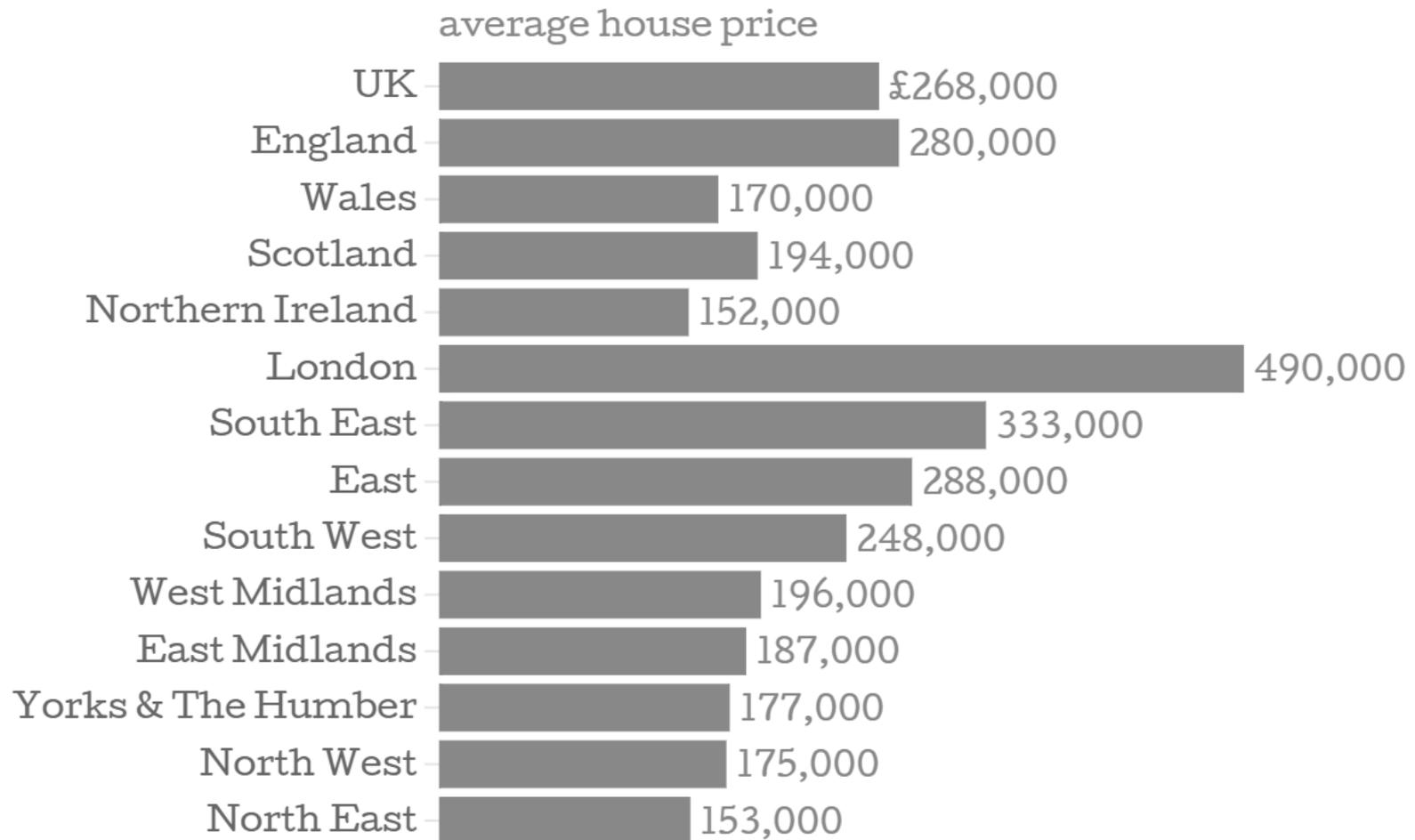
# 1. The Housing Crisis

- A supply crisis;
  - House-building levels fallen to historic low;
  - 100,000 – 120,000 completions each year in England, compared to 230,000 households forming; and many left inadequately housed;
  - Reliance on private, volume building as public building halted after 1980;
  - A private sector without capacity / recovering from 2008;
- Supply crisis seen to drive up prices

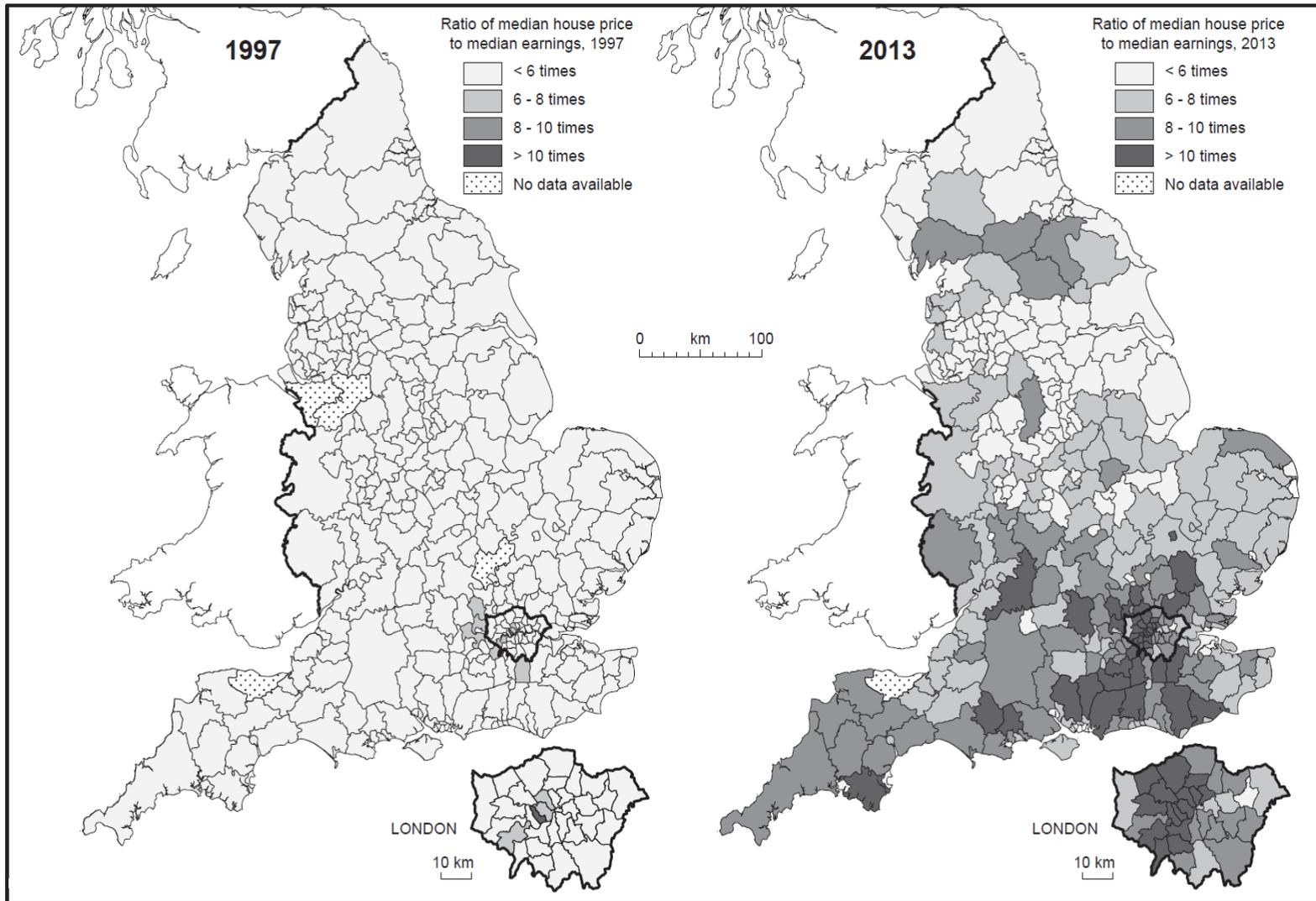
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## Government response:

- Housing and Planning Bill 2015
- Switch to 'starter homes', away from social renting
- 'permission in principle' zonal planning;
- Unlock sites through penalty approach (and delivery contracts)
- Blame planning and private landlords, redefine 'affordable housing' as 80% market value (£450,000 in London);
- Generally ignore fundamentals: over-investment in wider housing market, under-taxing of housing assets, and foreign investment in London;
- All drive economic growth; all complicate broader housing access

## 2. Hyper-consumption and investment

- London house prices rose during the banking crisis, because:
- **Credit-driven growth in the 2000s was substituted by foreign investment seeking a safe-haven in London and;**
- **Good deals on low LVR mortgages, encouraging those with wealth to invest in housing, especially in ‘buy-to-let’;**
- Growth in buy-to-let began after AST deregulation in 1997 and was leveraged through easier lending; stricter lending during banking crisis concentrated buy-to-let opportunities

## 2. Hyper-consumption and investment

- A demand / Investment crisis came to the fore;
  - Against a back-drop of rising homelessness and lengthening waiting lists in London;
  - Evidence of ‘hyper-consumption’ driven by ‘foot-loose’ private (not corporate or institutional) global capital;
  - Growth in a ‘buy-to-leave’ investment market to rival the ‘buy-to-let’ market being driven by domestic wealth;
  - Surge in capital accumulation and price rises in prime London property;
- A new diagnosis: consumption-driven crisis, with its effects rippling out from London

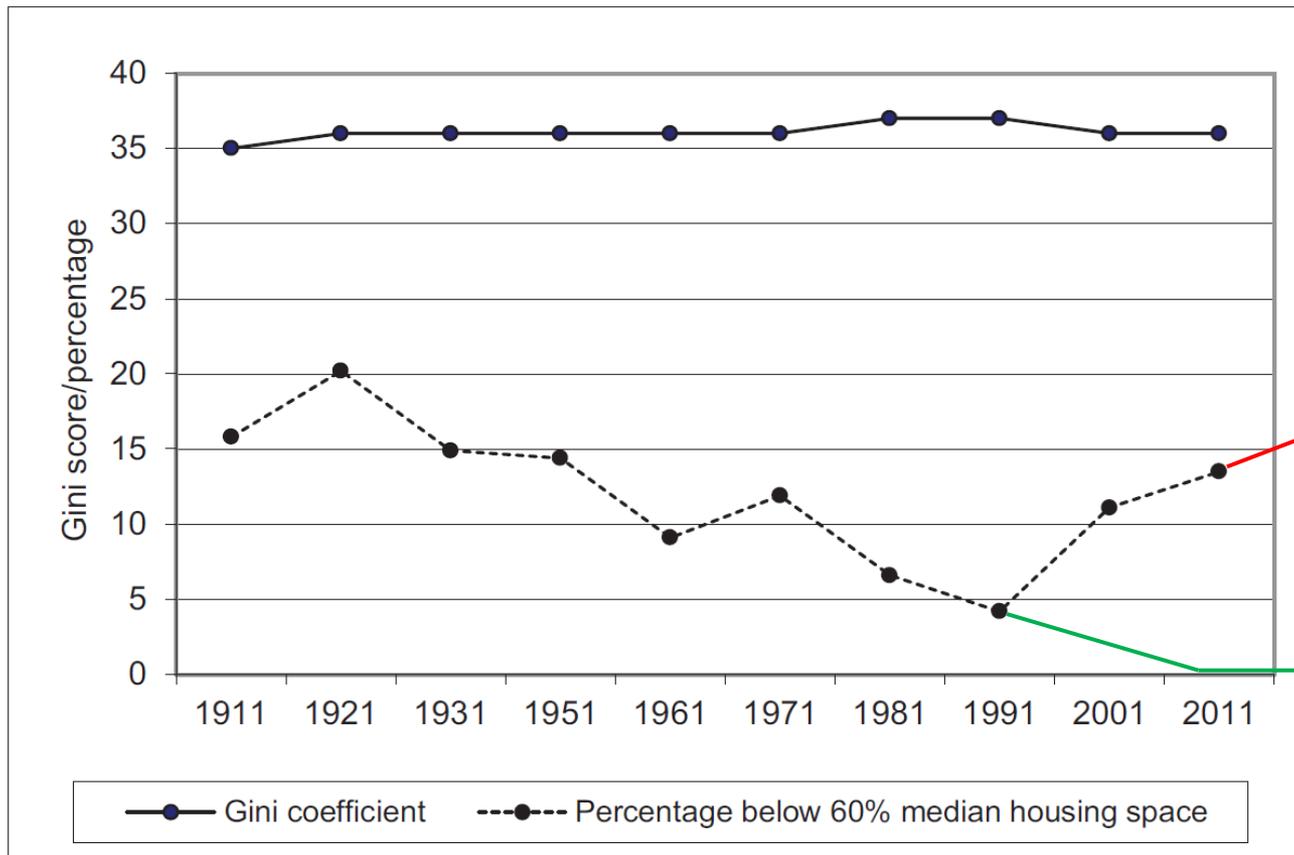
## 2. Hyper-consumption and investment

- **Investment to keep house prices rising and boost consumer confidence long been seen as good;**
- House price inflation is ‘good inflation’;
- *But at what point does good inflation turn bad?*

## 2. Hyper-consumption and investment

- Shortages in housing supply are a complicating factor exacerbating ‘other problems’ (Barker, 2014);
- In England, the turn to **hyper-consumption** comes at the end of 30+ years of under-supply;
- And much of the housing built in that period replaced homes taken out of the stock for reasons of **domestic over-investment** – as second homes, buy to rent etc.;
- Growth in new owners been in the **thousands**, despite new-build being in the **millions**. There’s been a concentration of *housing wealth* into fewer hands.

## 2. Hyper-consumption and investment



**Where we're heading?**

**Where we could have been?**

Figure 2. Inequality in distribution of rooms per person for people in private households in England and Wales, Gini coefficient and proportion below 60% median space per person, 1911–2011.

## 2. Hyper-consumption and investment

- And also a concentration of *housing space* into fewer hands (Tunstall, 2015);
- Total housing space in England increased twice as fast as population growth in England, 1911-2011;
- 2,600 households lived in 10 or more rooms in 1911; 331,000 live in 8 or more rooms today;
- **Why the changing pattern of consumption?**
- Due to market allocation, income inequality (Dorling, 2014), investment incentives (including tax) and incitement, and new capital movements...

### 3. Processes: Wealth, tax and incitement

- The demand for housing services (utility) difficult to separate from investment (asset);
- Mixed reasons for buying homes have evolved;
- ‘Over-investment’ a general feature of the market (Barker, 2014) but % demand that is investment difficult to measure;
- 1 million new buy-to-let mortgages, 1997-2007, followed AST deregulation;
- 2.5 million buy-to-let properties by 2009, half in London and SE England

### 3. Processes: Wealth, tax and incitement

- Perhaps 500,000 ‘second’ homes owned in England (Survey of English Housing), many for ‘investment’ purposes;
- Many small ‘portfolio’ holders including Tony Blair, who recognised the investment potential of Bristol properties;
- Private pension substitution (Edwards, 2015); and vehicle for inter-generational wealth transfer;
- Broader, but focusing, domestic investment in housing, now excluding ‘**generation rent**’.

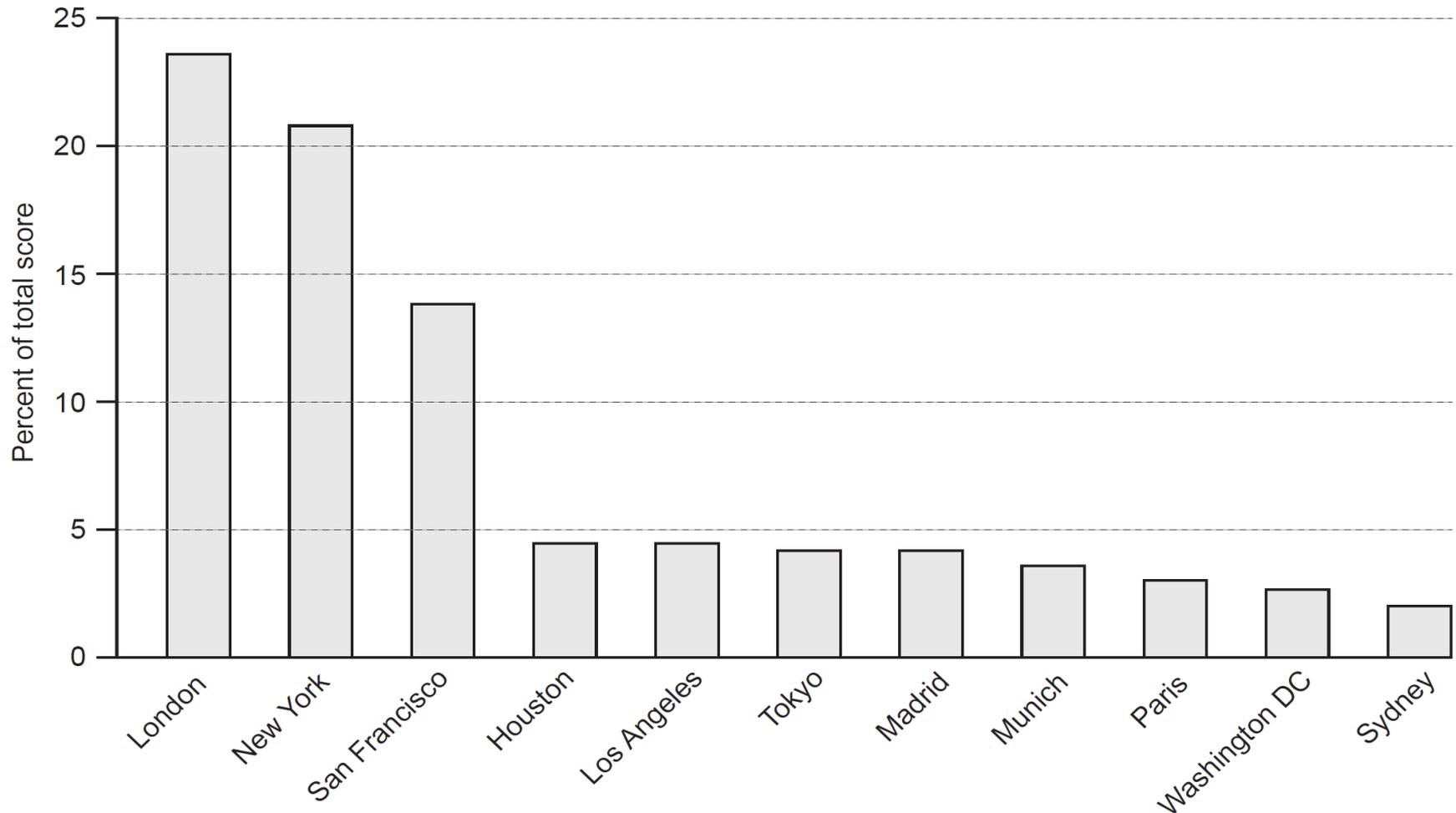
### 3. Processes: Wealth, tax and incitement

English region	Average age of first-time buyers in 2012
North West	35
North East	35
Yorkshire & Humberside	36
East Midlands	35
West Midlands	38
East of England	43
London	52
South East	45
South West	48

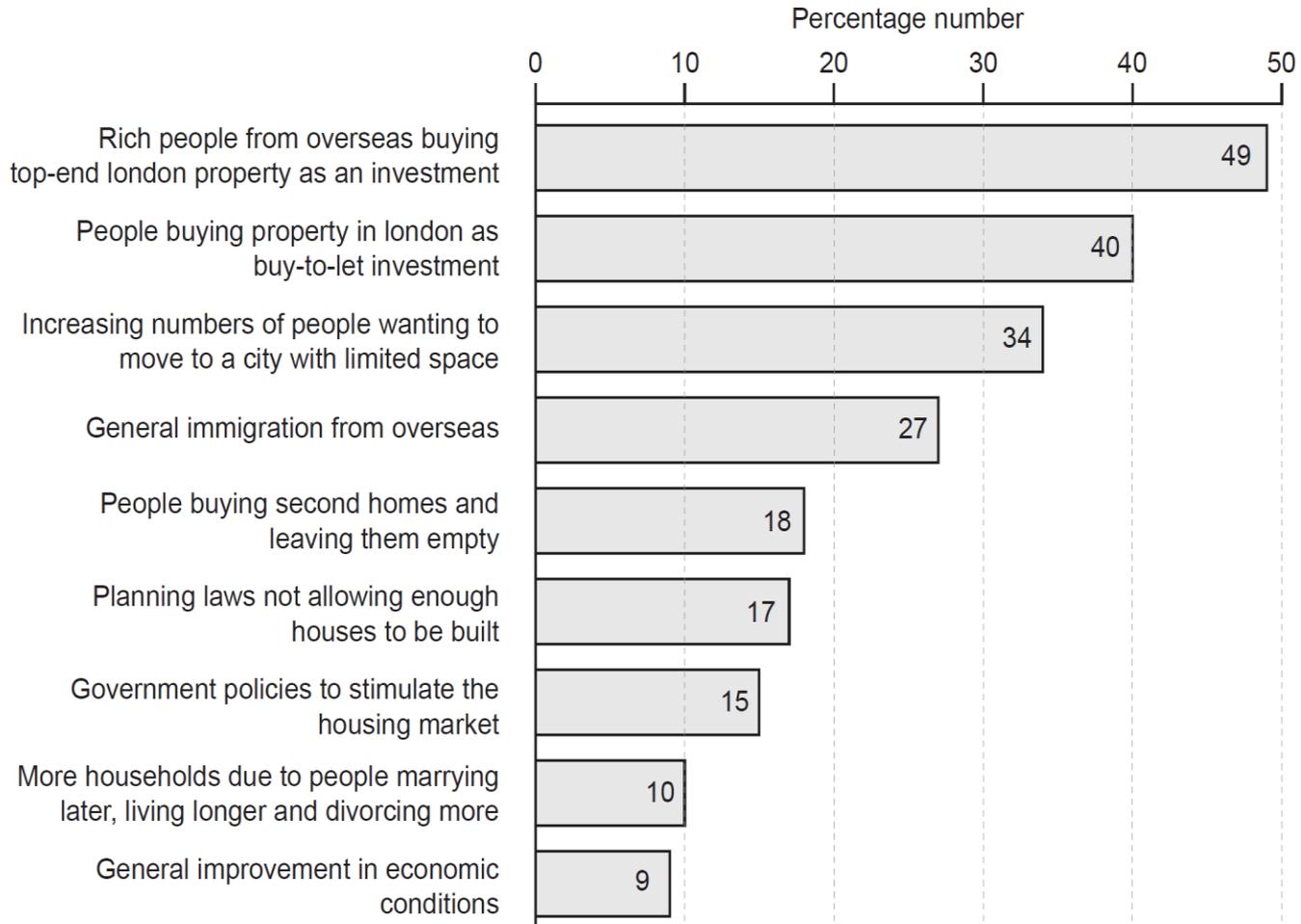
### 3. Processes: Wealth, tax and incitement

- In-flow of ‘global capital’: again, difficult to size and difficult to work out investment %;
- Annual inflow c. £2 – 2.5 billion;
- Price of central London property rose nearly 60% from 2009 to 2013;
- Prime London developments: 69% buyers foreign by birth; 49% foreign by residence;
- 15% of all London property bought by non-residents (Knight Frank, 2013)

### 3. Processes: Wealth, tax and incitement



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### 3. Processes: Wealth, tax and incitement

- Rising top-end consumption;
- One Hyde Park flats: 880m<sup>2</sup>;
- Reinforcing Tunstall's distributional issues
- But represent only the most conspicuous part of a general over-consumption pattern;
- Rooted more generally in the tax treatment of this investment commodity...

### 3. Processes: Wealth, tax and incitement

- Accumulation of real estate provides owners with asset base on which to borrow, spend and accumulate further fixed assets;
- Drives economic growth;
- Role in doing so amplified through tax treatment;
- So adjustment to tax levers not popular...

### 3. Processes: Wealth, tax and incitement

- Council tax: a source of finance for local government + a proxy for land value tax;
- Based on 1991 valuations, with levied amounts no longer reflecting trajectories of high price (and land value) changes over 25 years;
- Grossly under-taxes high-end property;

### 3. Processes: Wealth, tax and incitement

- Could be linked to land values and imputed rents, based on annual re-evaluation;
- But funding for local services would be subject to market volatility;
- Uncouple the two and deliver through different taxes / service levies;

### 3. Processes: Wealth, tax and incitement

- Capital Gains Tax: not charged on principal homes;
- Chargeable on other property, but ‘flipping’ is possible;
- Given the ‘investment’ function of housing, charging CGT would ‘bring taxation of housing into line with that of other assets’ (Barker, 2014)
- Recompense for the public investments that raise values above the level achieved through householder improvement.

### 3. Processes: Wealth, tax and incitement

Overall...

- No effective land or capital gains tax makes housing the perfect investment vehicle;
- But role in boosting consumer confidence, creating inter-generational ‘stability’ for families (Cameron, 2015) and substituting private pensions (and paying for late-life care through equity release) means that we’re very much hooked on the ‘house price drug’, making it difficult to tax.

### 3. Processes: Wealth, tax and incitement

- A clear political rhetoric backed up by policy levers
- Property-owning democracy, the stakeholder society (a stake in the housing game), the housing ladder, home-ownership as stability;
- Renting as second-class citizenship, as dead money, as a transit or transient tenure, as a route to social and family instability.

### 3. Processes: Wealth, tax and incitement

- The neo-liberal project of ownership; satisfying need through the market;
- The right to buy and other privatisation tools;
- A switch from bureaucratic to market allocation;
- Increasing emphasis on supporting home ownership
- But social renting has been largely substituted by amateur **private renting**, especially after 1997
- Home-ownership an unfulfilled aspiration for many...

### 3. Processes: Wealth, tax and incitement

- The UK Chancellor will not ‘stand idly by’ while young people cannot get on the ‘housing ladder’;
- Help to Buy guarantees for private mortgages;
- Switch from supporting social renting to supporting starter homes for sale (Housing and Planning Bill 2015);
- Strengthening market over bureaucratic allocation;
- An allocation strategy that is concentrating the housing wealth and resource.
- **Government focused on the aspiration to own / invest – not on a broader housing crisis.**

## 4. Interventions

- What is housing for?
- What is a home?
- Can *homes* be delivered in a context overwhelmed by investment pressure?
- Can the delivery of homes be separated from the creation of investment opportunities?
- What are the tax and planning options?

## 4. Interventions – Capital Gains (1)

- Gradual application of capital gains tax on first homes, rolled into IHT (Barker, 2014);
- Gradual deflation, but undermine consumer confidence?
- Move from ‘passive’ investment in property to ‘active’ investment, creating more opportunities for property investment funds – bring small investors into construction, commercial and residential – as in Germany.
- Redirect investment, retain consumer confidence

## 4. Interventions – Council Tax (2)

- Stretch the Council Tax bands for second / multiple homes
- Charge multiples of current rates for these properties
- Aim would not be to turn council tax into a land tax, but to tax over-investment / hyper-consumption
- Would target second / multiple homes and ‘buy to leave’

## 4. Interventions – Council Housing (3)

- Market allocation has driven unequal distribution
- Return to bureaucratic allocation – build council housing again
- Expectations have changed; society has shifted; not easy
- Current government wants to build discounted market housing, not social housing

## 4. Interventions – Planning (4)

- Start planning for housing and investment separately
- Allocate land for ‘resource housing’ first and ‘investment housing’ second, creating a split in ‘use classes’
- Restrict the purchasing and onward-sale of resource ‘homes’
- Squeeze opportunities for passive investment; create new opportunities for active investment

# Conclusions

- The investment / consumption crisis is hard to tackle, requiring:
- Unpopular tax reform;
- A shift in investment expectation / behaviour;
- Serious planning reform that affects land values and starts to prioritise housing over investment;
- Fundamental economic restructuring;

# Conclusions

- In 5 years, London has seen:
  - £100 billion of property investment by shell companies;
  - £20 billion by named non-resident buyers;
  - 60% hike in sale prices and rents;
  - Doubling of housing waiting lists;
  - Concentration of domestic wealth in Buy-to-let
- London's Mayor says investment is good for Londoners;
- But who can afford to be a Londoner?
- Government has capped benefit payments to the poorest households and London Borough's are signing agreements to rehouse people elsewhere in England;

Thanks

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