England’s Housing Crisis: A Misdiagnosed Problem?

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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*
1. The Housing Crisis

[Bar chart showing projections of household formation and housing completions in England from 1970 to 2012. The chart highlights the current (2012-based) projection of annual household formation rate.]
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
1. The Housing Crisis

- Average house price
- Homes built per year
1. The Housing Crisis

<table>
<thead>
<tr>
<th>Region</th>
<th>Average House Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>£268,000</td>
</tr>
<tr>
<td>England</td>
<td>£280,000</td>
</tr>
<tr>
<td>Wales</td>
<td>£170,000</td>
</tr>
<tr>
<td>Scotland</td>
<td>£194,000</td>
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<tr>
<td>Northern Ireland</td>
<td>£152,000</td>
</tr>
<tr>
<td>London</td>
<td>£490,000</td>
</tr>
<tr>
<td>South East</td>
<td>£333,000</td>
</tr>
<tr>
<td>East</td>
<td>£288,000</td>
</tr>
<tr>
<td>South West</td>
<td>£248,000</td>
</tr>
<tr>
<td>West Midlands</td>
<td>£196,000</td>
</tr>
<tr>
<td>East Midlands</td>
<td>£187,000</td>
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<tr>
<td>Yorks &amp; The Humber</td>
<td>£177,000</td>
</tr>
<tr>
<td>North West</td>
<td>£175,000</td>
</tr>
<tr>
<td>North East</td>
<td>£153,000</td>
</tr>
</tbody>
</table>

Source: ONS
1. The Housing Crisis
1. The Housing Crisis

**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.
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.

Tunstall, 2015
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

<table>
<thead>
<tr>
<th>English region</th>
<th>Average age of first-time buyers in 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>North West</td>
<td>35</td>
</tr>
<tr>
<td>North East</td>
<td>35</td>
</tr>
<tr>
<td>Yorkshire &amp; Humberside</td>
<td>36</td>
</tr>
<tr>
<td>East Midlands</td>
<td>35</td>
</tr>
<tr>
<td>West Midlands</td>
<td>38</td>
</tr>
<tr>
<td>East of England</td>
<td>43</td>
</tr>
<tr>
<td>London</td>
<td>52</td>
</tr>
<tr>
<td>South East</td>
<td>45</td>
</tr>
<tr>
<td>South West</td>
<td>48</td>
</tr>
</tbody>
</table>
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

![Bar chart showing percent of total score for various cities](chart.png)
3. Processes: **Wealth, tax and incitement**

- Rich people from overseas buying top-end London property as an investment: 49%
- People buying property in London as buy-to-let investment: 40%
- Increasing numbers of people wanting to move to a city with limited space: 34%
- General immigration from overseas: 27%
- People buying second homes and leaving them empty: 18%
- Planning laws not allowing enough houses to be built: 17%
- Government policies to stimulate the housing market: 15%
- More households due to people marrying later, living longer and divorcing more: 10%
- General improvement in economic conditions: 9%
3. Processes: **Wealth**, tax and incitement

- Rising top-end consumption;
- One Hyde Park flats: 880m²;
- 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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