

Housing policy and the changing tenure mix

Christine M E Whitehead
London School of Economics

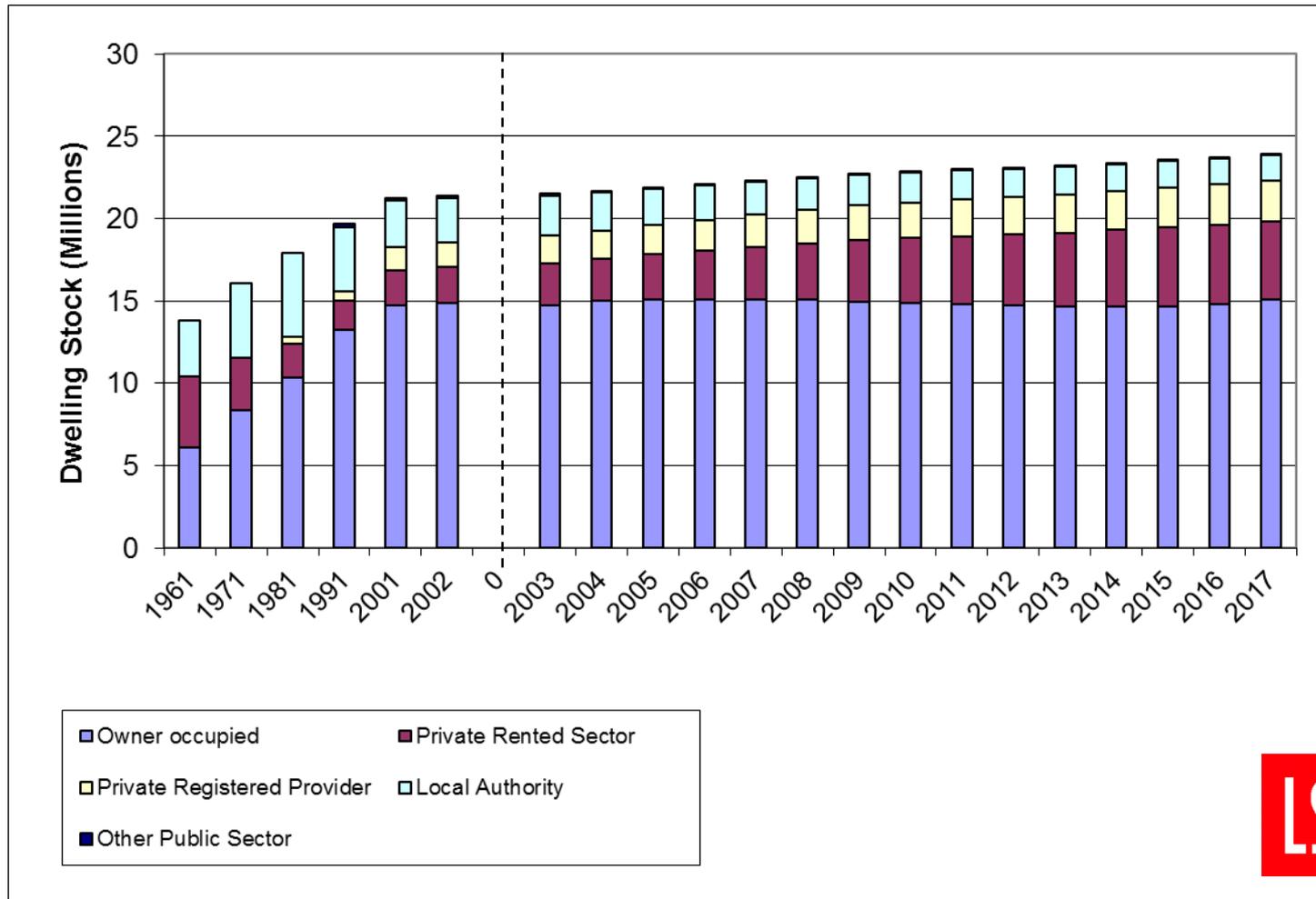
NIESR/RICS/CaCHE Conference
“The Broken Housing Market”
London
1 June 2018



Which Housing Policy?

- Housing policy technically the remit of MHCLG – but anything involving taxation/subsidy controlled by Treasury and monetary policy remit of Bank of England – plus other spending departments and regional/local powers;
- Hardly surprising that policy is inconsistent/incoherent when so many instruments and stakeholders involved; been trying to simplify at least since the Housing Finance/Policy Review more than 40 years ago;
- And anyway more general economic (and social/cultural) factors which may be stronger than any policy.
- Here talk about 3 tenure based examples: the growth of the private rented sector; tax anomalies; and support for new build/home ownership.

Dwellings by Tenure (England)



New Build and the Transfer of Existing Stock to Private Renting

- Between March 2003 and March 2017 1.35m plus units were completed in the private sector – mostly for owner-occupation. Over the same period the total number of owner-occupied dwellings increased by only just over 300,000 (reducing the % owner-occupied from 69% to 63%);
- Over the same period the social sector built 330,000 units, but the stock declined by 110,000 (20% reduced to 17%);
- The private rented sector stock increased from a little over 2.5m to 4.8m (12% to 20%) over the same period;
- Similar patterns across the country (and in Wales and Scotland) – ie NOT just a London phenomenon;
- Yet the major Green Papers of 2000 and 2007 did not mention the PRS - there was finally a 6 page chapter in the 2011 strategy - and in the 2017 there were 2 pages on diversifying the market.

How Has Policy Impacted?

- Basically the shift towards private renting was hardly noticed let alone predicted by housing policy makers – its starting point was a private initiative in the mid 1990s; nothing much positive until the Montague Report in 2012;
- However growth in part an unintended consequence of other policies;
 - The Right to Buy put stock into the market which has transferred into the PRS in large numbers. Current suggestions are that around 40% of right to Buy homes now being privately rented;
 - Reduced social housing has led to an increasing housing benefit bill as more households in need located in the PRS – % on HB relatively stable at 20% of all private tenants but numbers increase means takes about 40% of the £24bn budget;
 - The median first time buyer is paying around 17% of income in capital and interest payments. Private rents as a proportion of income are far in excess of this figure – suggesting many excluded from entering owner-occupation;
 - Regulatory requirements mean median deposit of over £25,000 plus stress tests way outside any macro-prediction of interest rates. In London the figures are still around 17.5% but median £45,000 deposit. Together with uncertainties in the job market and the costs of private renting large numbers of those who could afford to pay cannot buy;
 - More fundamentally – impact of quantitative easing on asset prices and lack of alternative investment opportunities;
 - Core issue – Bank of England’s role is to stabilise the overall financial system – if housing suffers must cope with that themselves.

Tax Anomalies

- Relative taxation of housing and of different tenures has become even more complex over the years.
- Owner-occupation benefited from tax reliefs for decades (centuries?) as well as receiving subsidies for access (shared ownership; rent to buy; Right to Buy etc);
- From 2000, owner-occupation treated as a consumption good while private renting as an investment good. This has now changed as mortgage tax relief increasingly limited for private renting – putting individual investors at a disadvantage – seen as policy to help owner-occupiers;
- Stamp Duty taxes transactions - seen by all as a ‘bad tax’ but basically accepted as a revenue raiser which impacts mainly on London so politically easily acceptable;
- Inheritance tax – political pressures over-ride economic ones?
- Apart from revenue raising is there any logic?

Direct Assistance to New Build/Owner-Occupation

- Help to owner-occupation now limited almost entirely to new building except for transfers from the social sector – one element in achieving government new build ‘targets’;
- Shared ownership benefits from S106 and grant;
- Help to Buy introduced in 2013 for 2 purposes: to support owner-occupation (not restricted to first time buyers) and to support new housing development; overall output levels now around those of 2007;
- Partial equity products favoured by BoE for many years; risks transferred to government in early years – but returns to government as long as no general deflation likely to be positive;
- 2015 Evaluation – around 40% additional on demand side and maybe 15% increase in private sector housing output;
- But probably the most important factors in meeting ‘target’ are Build to Rent and Permitted Development.
- Overall, little or no discussion of a coherent/consistent housing policy approach to tenure mix; and much of what actually happens is an outcome of wider pressures.