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HOME IMPROVEMENTS

Action to address the housing challenges faced by young people

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Executive summary

After decades of neglect, today housing sits at the top of the political agenda. On the left and on the right, there is a strong sense that today's young people in particular, and our country more generally, are being short-changed when it comes to housing. This is an account that has been confirmed by previous work for the Intergenerational Commission: we know that millennials today are spending more of their income on housing than previous generations did at the same age, but critically get less for their money when it comes to security and quality of life.

Turning this around so that young people can once again achieve the housing outcomes we all want is not an easy task. In this, the 19th report for the Intergenerational Commission and the latest in the series of *policy options* papers published in advance of the Commission's final report, we consider a range of potential approaches.

In the short term, dealing with the intergenerational housing challenge requires reform of the private rented sector (PRS) where so many young people live today, and in some cases are likely to reside for the rest of their lives. In the medium term, it means taking action to rebalance housing demand rather than simply stoking it, levelling the playing field between old and young rather than pushing up prices further. And over the longer term, it means accepting it will be a long haul to increase supply, and that both the private and public sector need to build more homes.

With many millennials set to rent privately during their key child rearing years and beyond, de-risking the PRS is crucial

With home ownership often out of reach, and options in the social rented sector highly constrained, it is no surprise that four-in-ten millennials rent privately at the age of 30. While an acceptable and indeed often preferred tenure when footloose and fancy free, the limited security the PRS provides in England and Wales makes it far less fit for purpose as families begin to age. With the number of households with children renting privately tripling in recent years, and up to 16 per cent of millennials set to rent in the PRS from cradle to grave, it is time for warm words to be converted into serious action on tenancy reform.

The experience of other countries is instructive – indeed, we need look no further afield than Scotland to see how things can be done differently. There, as in Germany, the Netherlands, Sweden and Switzerland, indeterminate leases are the norm. These aim to balance the needs of tenants to create a stable home with the rights of landlords to utilise their property. Tenants can be asked to leave if they breach basic conditions such as treating the property well, and in a sensible set of scenarios such as when a landlord wishes to sell or reoccupy the home, but cannot simply see their tenancy ended at short notice without good cause.

Opposition to the introduction of indeterminate tenancies would likely be intense, but in our view could be overplayed. Fewer than one-in-ten tenancies in England today are ended at the landlord's request, with more than 60 per cent of these occurring because the owner wishes to sell or use the property themselves, exactly the circumstances

which any sensible tenancy law allows. While there may be hard cases, indeterminate tenancies would offer private renters unable to graduate from the tenure the sense of security we all wish to associate with the place we call our home.

Improving life in the PRS requires more than just tenancy reform

Improved security of tenure needs to go hand in hand with other changes if it is truly to deliver for all generations. Critically, renters can only feel secure if they have some protection against sharp rental spikes which may occur if the local market experiences a rapid increase in demand or – more disturbingly – when a landlord uses a rapid rent increase to ease a tenant out. Light-touch rent stabilisation, which allows landlords to negotiate a market rent at the beginning of a tenancy but increase it no faster than CPI for the following three years, could achieve this end.

Changes to tenancy law and rent setting policy would need to be effectively communicated to tenants and landlords alike for the full effect to be felt. This could prove something of a challenge in England however where, unlike Scotland and Wales, there is no comprehensive record of who owns rental properties. Simply making it a requirement that landlords register with their local authority could easily solve this problem (and give councils greater leverage in their efforts to tackle rogue landlords too).

Reformed tenancies should sit alongside improved processes for resolving housing disputes such as when landlords legitimately request possession or tenants want to challenge rent increases that fall foul of new rules. In such cases, a speedy, cheap and effective arbitration mechanism is key if the interests of all are to be fairly served. With the county court system that currently presides over the majority of housing disputes displaying few of these characteristics, and the government rightly consulting on a better approach, a housing tribunal is an essential part of the intergenerational offer when it comes to the PRS.

Young renters on low to middle incomes receive less state support for housing costs than they did in the past

While rent stabilisation would protect those living in the PRS from short, sharp rental shocks, it would do little to improve affordability for those low-to-middle income families who spend a large part of their incomes on rents every week.

In the short term, housing benefit (HB) – via the local housing allowance system or, increasingly, the housing element of Universal Credit – should be taking the strain. Today's young people are doubly disadvantaged however. As well as being subject to more stringent HB rules than pensioners face, the combination of across the board cuts and a number of age-specific restrictions has reduced the value of HB for millennials relative to those who came before them. For example, on average HB covers just 55 per cent of the housing costs of non-working, private renting millennial families at age 25; the equivalent figure for generation X families at the same age was 77 per cent.

Ultimately, delivering on the purpose of HB requires it to be relinked to the level of rents. In the meantime however, the logic underpinning age-related restrictions requires some scrutiny. In particular, we question whether it is appropriate to expect low income, single private renters with no children to share up to the age of 35 given

that this is not 'normal' behaviour for their better-off peers at that age. Consequently, we propose reducing the point at which young people can only claim the shared accommodation rate (SAR) to under-30 as opposed to the current rule of under-35.

Home ownership aspirations remain high – but we should take a different approach to helping first time buyers

Despite the barriers that many face, as many as 65 per cent of young people still aspire to buy their own home. While improvements in the PRS might damp down this enthusiasm over time, home ownership is likely to continue to be the preferred tenure – not least because it allows families to build up an asset, increase security and reduce their housing costs as they age. But, in contrast to older generations who lived through an era of credit liberalisation, today's young people have to contend with a tightening (albeit more macro-prudentially sound) lending regime. Combined with house price growth that has drastically outstripped incomes in recent years, this results in deposit requirements far larger than in the past.

For many, the dramatic fall in home ownership levels of young people is coterminous with the housing crisis. It is unsurprising, then, that policy makers have focused on supporting young people to purchase a home in recent years and, in particular, have aimed to help them overcome deposit barriers. A narrow focus on interventions which support demand, such as Help to Buy equity loans, ultimately risk being self-defeating however. As well as having significant deadweight costs (which indicates better targeting is in order), the evidence also suggests simplistic demand-side policies of this type stoke house prices too.

A better, more radical, approach would be to rebalance demand for housing in the interests of younger generations through better use of the tax system. We estimate that close to one-third (32 per cent) of the total housing stock is owned by someone who could be described as 'over-housed', either because they significantly under-occupy their home or because they own multiple properties (other than those they rent out). While it is entirely natural for individuals to want to consume more housing as their income grows – and many of those who are 'over-housed' end up in this category more as a result of happenstance than deliberate design – in our view there is a clear case for not tax advantaging consumption of these types and in some cases explicitly disadvantaging it, thereby improving the relative position of first time buyers.

It's time to make it harder to be 'over-housed' - but more tax efficient to exit the category

Since April 2016, purchasers of additional properties (including those who buy to let) have been subject to an additional stamp duty surcharge designed to make it less attractive to buy a second or subsequent home. Increasing this surcharge for buyers who are resident overseas by an additional 3 percentage points would bring us into line with practice in Australia and Vancouver, and would moderate what in some places is a significant source of demand. Beyond this, we argue that the main way to change the relative bargaining power of first time buyers would be to cut stamp duty across the board, while maintaining the surcharge for UK-based buyers of second and additional homes at current levels.

While in isolation a stamp duty cut risks being 'baked into' house prices, this would have the welcome effect of reducing the 'stickiness' of the UK housing market by increasing

transactions. In particular, this change would enable over-occupiers to downsize more easily – something they may also be keen to do if council tax were levied more efficiently as has been proposed in a previous *policy options* paper for the Intergenerational Commission. Moreover, we argue that council tax discounts on second and empty properties should be abolished, albeit with limited exceptions such as homes held up in probate or undergoing renovations.

Having made it less attractive to be ‘over-housed’ – but easier through stamp duty cuts to move to a new main residence – it also makes sense to review the tax treatment of those selling second and subsequent homes. Under current rules, capital gains on additional properties are taxed on sale but forgiven on death. Requiring capital gains tax (CGT) be paid on additional properties when bequeathed to anyone other than a spouse or civil partner would be a sensible step that would discourage owners holding on to additional homes until death. But there is also case for making it even more attractive to put additional homes on the market. Tripling the CGT allowance for those selling to a first time buyer for a time-limited period could have a large dynamic effect, bringing forward disposals that would have otherwise have happened in the years ahead.

There is no either/or when it comes to housing supply – we need to build more homes

While some regard building more homes to be the ‘be all and end all’ of housing policy, others have argued recently that a lack of supply has played no role in intergenerational housing inequalities. We think the truth sits somewhere in between. We note for example that 29 per cent of millennials still share a home either with their parents or others to whom they are not partnered at the age of 30, compared to just 16 per cent of baby boomers at the same age. And when we look cross-nationally at the ratio of population to housing stock, we see that the UK is not only a poor performer compared to other OECD countries but has actually recorded a fall in its ratio over the last 15 years.

Longer term, tackling housing affordability is likely to require a combination of tempering housing demand *and* building more homes. The government’s target of increasing (English) housing supply by 300,000 units a year is a worthy ambition, with studies suggesting that sustained over time, volumes such as this would have an effect on housing costs and prices. But declarations are one thing, delivery another: when we look at the data since 1946, we see there have only been six years in which 300,000 homes or more were built. If as a nation we wish to build at scale once again, it is clear that this cannot be achieved by ‘business as usual’.

Developers point to planning and land as key constraints

So what does the industry say would enable it to up its game? Developers point to two key aspects of the housing market that constrain their efforts to build at greater volume.

To begin, planning is often regarded as grit in the system, holding back development and dulling ambitions. In fact, the evidence suggests that the many changes already made to planning rules in recent years have had a positive effect: while a decade ago 83 per cent of planning applications were successful, today that figure stands at 88 per cent. But

hollowed out planning departments are clearly under pressure, which is why we suggest a central resource of expert planners be created to boost the capacity of ambitious local authorities keen to increase their housing stock.

Second, if we want many more new homes we need to find new land on which to build (or change the rules around density and space). Many accounts have documented the dysfunctionalities of the land market in the UK. We think it is time for radical action on this account. Community land auctions, with local authorities acting as brokers in land deals, should be explored further through a proper pilot scheme. But this most inventive of policies still requires a backstop to ensure enough land is brought forward. Given this, the compulsory purchase powers of local authorities should be reviewed.

Beyond these general reforms, it is also worth thinking about changes to ensure developers build more of the types of properties that have an important role to play in addressing the intergenerational housing challenge. The nascent Build to Rent (BTR) sector could be given an additional spur if institutional investors were exempted from the stamp duty surcharge for example. However, as a quid pro quo, we believe that BTR developments should have to deliver on a full quota of affordable homes (on-site or off-site). Relatedly, evidence suggests it is time to tighten up the viability rules and allow local authorities to claw back compensation if developers are shown to have negotiated down their affordable homes requirements in an unreasonable way.

If the market cannot deliver the volumes, the state needs to build more too

Even with significant planning and land reform it is questionable whether the market will ever deliver the number of homes to which the government aspires. If we look historically we can see that it is only when the state has taken a proactive role in building that figures close to 300,000 units a year have been achieved. As the Lewtin Review recently made clear, it is simply not in private developers' interests to build at rates that would have an effect on price – something we should not be surprised about when their duty of care is owed to shareholders and not to the public good.

All of which points to a single, simple conclusion: if we want to build consistently at sufficient scale to produce a price effect the state has to build once again. The rise of council housing companies and indeed the expanding housing association sector shows there is no lack of appetite for this task. It is only with sufficient funds however that state building is likely to take off, which is why we suggest two key changes be considered. First, we propose that mayors be given more scope to borrow as part of city deals. Second, and more radically, we believe that once funding gaps for social care are plugged, the social care precept should be repurposed as a building precept. This would give local authorities the ability to raise up to £1.5 billion in revenue in 2020 which they can dedicate to kick-starting building in their area.

Because if not now, then when?

As the wider work of the Intergenerational Commission has shown, housing is the number one concern that people raise when asked to ponder the living standards prospects of today's young adults. The agenda for action we set out in this *policy options* report is comprehensive in scope and bold in its ambitions. The interventions we outline aim to improve the housing lot of young people in the here and now, but also address many of the underlying structural determinants of the predicaments so many of them face today.

As our analysis makes clear, if we fail to get to grips with all the manifold dimensions of housing policy we risk a generation of children growing up in insecurity, their parents spending progressively more of their incomes on housing, and a pensioner housing benefit bill more than double the size it is today and as much as £16 billion by 2060. There are legitimate interests to be balanced across the board – landlords versus tenants, multiple property owners versus first time buyers, land owners versus the state – but we think it is time to put those who have been ill-served by historic housing policy front and centre stage.

HOUSING POLICY OPTIONS

<p>Enhanced security</p>	<p><i>Reform the private rented sector</i></p> <ul style="list-style-type: none"> o Introduce indeterminate tenancies as the sole form of private rental contract available in England and Wales, following Scotland’s lead o Allow landlords to set rents at market levels at the outset of tenancies but limit rent CPI inflation for set three-year periods thereafter o Landlords must provide six months’ notice of rent rises at end of each three-year period o Establish a housing tribunal to adjudicate on possession applications and rent rises o Require landlords in England, as in the rest of the UK, to register with local authorities <p><i>Reverse cuts to housing benefit</i></p> <ul style="list-style-type: none"> o Reduce the age beneath which the shared accommodation rate applies from 35 to 30 o Longer term, relink Local Housing Allowance to rents
<p>Rebalanced demand</p>	<p><i>Limit direct government support for housing demand</i></p> <ul style="list-style-type: none"> o Target Help to Buy equity loans at low-to-middle income households o End Help to Buy equity loans in 2021 when the current funding envelope runs out <p><i>Reform property tax to support young buyers dampen down demand from the ‘over-housed’</i></p> <ul style="list-style-type: none"> o Halve rates stamp duty for movers and first time buyers while maintaining the surcharge on those buying additional properties o Consistently tax second and empty properties, abolishing the existing discounts o Cut capital gains tax allowances for a limited time to incentivise sale of additional properties to first time buyers o Levy capital gains tax on additional properties when passed onto anyone other than spouse or civil partner at death
<p>Increased supply</p>	<p><i>Support local authorities with planning and building</i></p> <ul style="list-style-type: none"> o Give councils extra planning muscle with support from government o Pilot community land auctions <p><i>Encourage new forms of supply along with affordable homes requirements</i></p> <ul style="list-style-type: none"> o Exempt the build to rent sector from stamp duty surcharges o Strengthen the hand of councils to hold builders to affordable homes commitments <p><i>Increase public funds for house building</i></p>

Section 1

Introduction

Last year, in our 9th report for the Intergenerational Commission, we took a detailed look at housing outcomes across the generations.¹ The evidence we uncovered confirmed the popular perception that housing is a – if not the – key generational concern.² We found that young people today spend more of their income on housing, but critically get less for their money than previous generations at the same age, especially when it comes to security and quality of life.

The housing predicament that many young people find themselves in today is the product of long run forces. Policy choices which benefited older generations often leave millennials high and dry. Credit liberalisation – which facilitated home ownership for so many in the past – has also driven up house prices over time. The deregulation of rents and tenancy law – which made owning rental property attractive and has benefited many (now older) people with funds to invest – has left tenants of all ages exposed. And Right to Buy – which enabled so many in the baby boomer and silent generations who never dreamt of owning their home to do just that – has also depleted the social rented stock, leaving less available for young people today.

In this, the 19th report for the Commission and the latest in our series of *policy options* papers, we turn to the question of what action is required if we want to make good the housing experience of younger generations both today and in years to come. To this end, the report is structured as follows:

- In Section 2 we look at ways to de-risk the private rented sector, exploring topics such as tenancy reform, rent stabilisation, the registration of landlords and the adjudication of housing disputes. We also explore the extent to which housing benefit supports low-to-middle income private renters today compared to the past.
- In Section 3 we turn to the topic of how policy can best support young people to buy their own home. We argue that interventions that stoke demand are often counter-productive, because they simply get ‘baked into’ the price. Instead, first time buyers’ market power can be increased by making it less attractive for others to purchase or hold additional or large properties, but easier for them to exit the market;
- In Section 4 we look at the other side of the equation and consider the reforms that are needed to increase housing supply. We explore options when it comes to planning and the land market, as well as sources of funds that would enable the state to build at scale once more.
- We end in Section 5 with some concluding thoughts, and highlight the risks to both living standards and the public purse if we fail to tackle the intergenerational housing challenge.

1 A Corlett and L Judge, [Home affront: housing across the generations](#), Resolution Foundation, September 2017

2 S Hall, H Shrimpton and G Skinner, [The millennial bug: public attitudes on the living standards of different generations](#), Resolution Foundation, September 2017

Section 2

De-risking the private sector

Living in the private rented sector (PRS) carries significant risks: of losing one's home at short notice; of housing costs increasing sharply with no warning; and of issues with the property being left unaddressed. It is small surprise, then, that the majority of renters consistently indicate they would prefer to own their own home. But with four-in-ten millennials renting privately at the age of 30, and many of them set to raise families if not live out their old age in this tenure, de-risking the PRS has to be a critical part of any new intergenerational settlement.

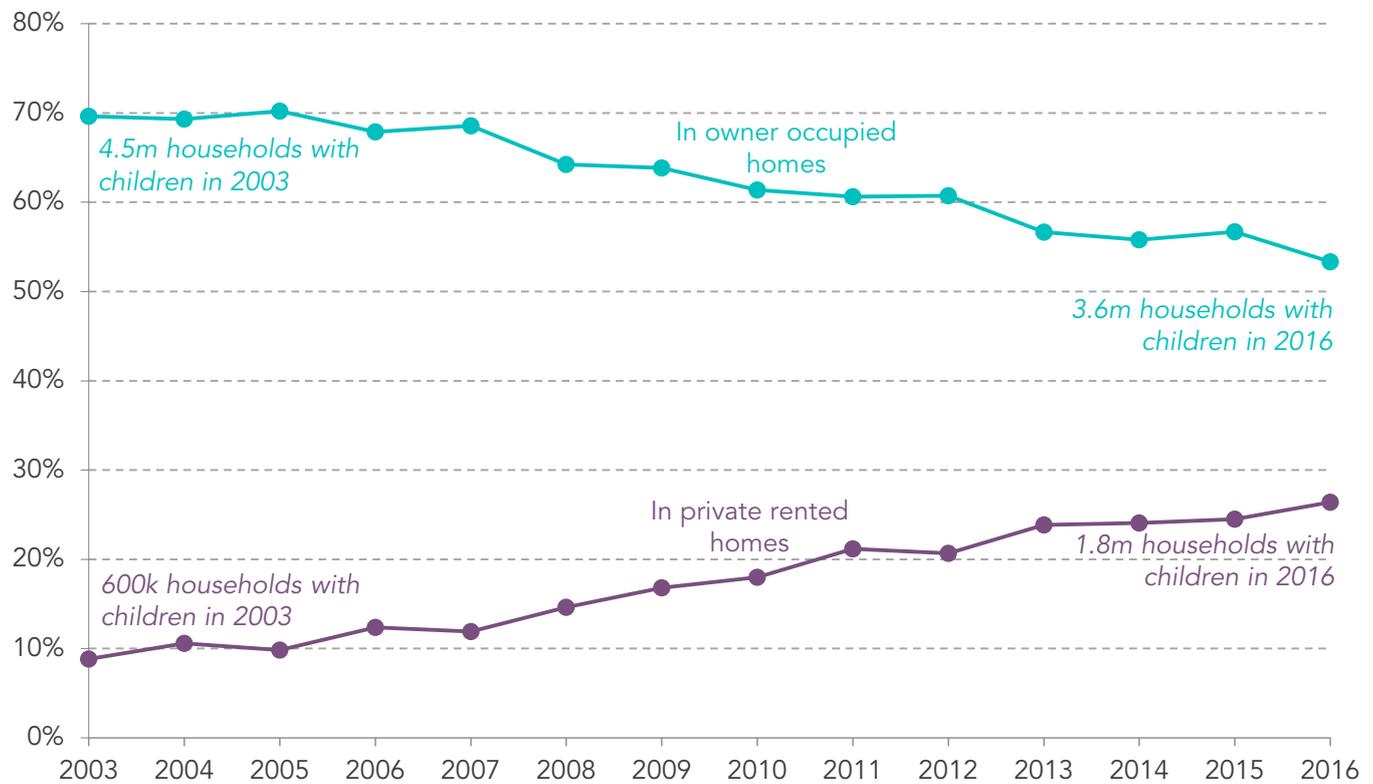
The insecurity of renting is a problem for young and old and needs addressing

The majority of private tenants in the UK today rent their homes on an assured shorthold tenancy (AST). Introduced in 1988 and the default lease since 1997, an AST gives tenants an initial fixed term of typically 6 to 12 months during which they can only be asked to leave if they fail to pay the rent or breach other statutory terms. Once the fixed term expires however, the lease continues on a month-by-month, or week-by-week basis. From this point on the landlord need give only two months' notice to tenants to vacate, and does not have to give a reason for this decision.

With many young people failing to graduate from the PRS into either social housing or home ownership in recent years the number of households with children living in the tenure has tripled, rising from 0.6 million in 2003, to 1.8 million in 2016 (Figure 1). Put differently, there were 8 households with children in owner-occupied houses in the early-2000s to every 1 in the PRS; today that ratio is 2 to 1.

Figure 1: Families with children increasingly live in the private rented sector

Proportion of households with children in owner-occupation and the PRS, England



Notes: Year refers to main year in fiscal year (e.g. 2003 = 2003-04).

Source: RF analysis of MHCLG, *English Housing Survey*

But it is not just families with children that are ill-served by ASTs. While only 6 per cent of pensioner families rent privately today, we estimate that even on an optimistic account that proportion is set to rise to 9 per cent by 2060, and it could be as high as 16 per cent if less positive conditions prevail.³ While less attention has been paid to older renters to date, a growing number of pensioners in the PRS generate similar concerns, particularly as this age group often lives in poorer quality properties.⁴ And old or young, there are costs attached to frequent moving such as finding a new deposit while the previous one is still being held, removal expenses and (although they are now in the process of being banned) letting fees.⁵

3 S Clarke, *The future fiscal cost of generation rent*, Resolution Foundation, April 2018

4 See, for example, S Arthur, A Christie and R Mitchell, *Unsuitable, insecure and substandard homes: The barriers faced by older private renters*, Independent Age, March 2018.

5 *Draft Tenant Fees Bill (Cm 9529)* Presented to Parliament by the Secretary of State for Communities and Local Government by Command of Her Majesty, November 2017

Other countries - including Scotland - show it does not have to be like this

Private renters have significantly more security of tenure than in England and Wales in almost all comparable countries. Some countries, such as Belgium and Austria, offer much longer initial fixed terms than an AST, and often have an automatic renewal clause once the original term has expired. Alternatively, in Germany, the Netherlands, Sweden, Switzerland and, since December 2017, Scotland, indeterminate leases are the norm. However, in all these cases, landlords can break the lease for a number of sensible reasons: if they or a family member want to occupy the property, for example; if they wish to sell; or if the tenant breaches basic terms relating to paying the rent and treating the property respectfully.⁶

So why are England and Wales the outliers when it comes to security of tenure? In fact, it *is* possible for a landlord to offer a tenant an indeterminate lease in England and Wales today through an assured tenancy (AT). At just 3 per cent of all private sector leases however, the AT is a little used form.⁷ Moreover, efforts by the government to ‘nudge’ landlords to offer fixed but longer leases in recent years – most notably with the introduction of the ‘Model Tenancy’ in 2014 – do not appear to have had any effect on average tenancy length to date. And it may not just be landlords who are reluctant to consider longer leases: tenants can misunderstand long term fixed tenancies, wrongly believing for example that a three-year lease would prohibit their moving out during that period.

Landlords have legitimate concerns about longer tenancies, but these pale in comparison with the needs of renters

As multiple studies have shown, the majority of landlords appreciate stability. This reflects the fact that rapid tenant turnover results in higher refurbishment and re-letting costs, and a risk of voids.⁸ Nevertheless, landlords are clearly fearful of reform that would hand tenants greater security of tenure.⁹ Some of their anxiety is arguably misplaced: as Figure 2 shows, not only do landlords terminate the lease in less than one-in-ten cases, but in a substantial majority of these instances they plan to sell or use the property - precisely the circumstances which any sensible tenancy law would allow.

6 There are 18 statutory grounds for possession in Tenancies Act (Scotland) 2016 for example: 8 of these are mandatory (meaning a tenant must vacate under such circumstances) and 10 are discretionary (requiring a tribunal to decide on the reasonableness of issuing an order to vacate).

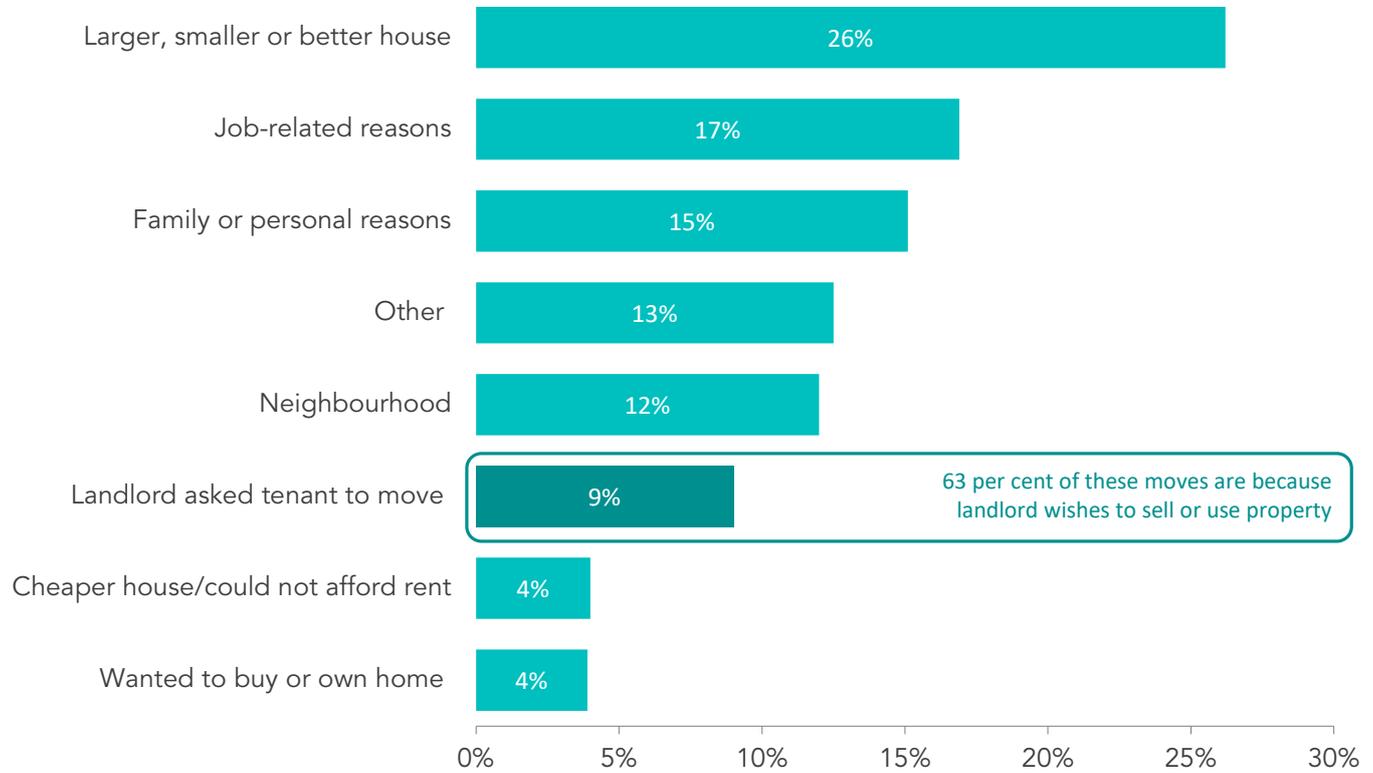
7 MHCLG, *English Housing Survey: private rented sector report, 2014-15*, July 2016

8 See, for example, J Rugg and D Rhodes, *The private sector: its contribution and potential*, Centre for Housing Policy University of York, 2008

9 See, for example, Residential Landlords Association, *Written evidence submitted to Communities and Local Government Committee*, January 2013

Figure 2: Private tenancies are ended at the landlord’s request in only a minority of cases

Main reason for moving house, all private renters who have moved in previous three years



Source: RF analysis of MHCLG, English Housing Survey: private renters report, 2015-16

Landlords do, of course, have legitimate concerns about change. A longer fixed-term lease (for example, of three years) would delay the point at which a landlord could automatically repossess without recourse to a judicial or quasi-judicial process. In addition, the routine – albeit delayed – termination of the lease would not exist if there was a right to automatic renewal attached to a longer fixed-term, or if indeterminate tenancies were the standard. Overall, it is clear that longer tenancies go hand in hand with a more onerous burden of proof on the landlord if and when they wish to break the lease. In addition, there are some parts of the sector that could be more acutely affected by any change to tenancy lengths. For example, the student market – with its in-built seasonality and rapid turnover – could be negatively impacted if tenants who planned to leave failed to give sufficient notice to allow landlords to re-let properties for the start of a new academic year.

But when viewed through an intergenerational lens, it is difficult to see why, on balance, the relatively minor problems that greater security of tenure could represent for a small proportion of landlords should prevail over the growing need of private renters to create a stable home. Given that efforts to encourage landlords to offer longer leases voluntarily have proved ineffectual to date, stronger action is needed if risk in the PRS is to be substantially reduced.

i Policy option

- » **Introduce indeterminate tenancies as the sole form of private rental contract available in England and Wales, following Scotland's lead.**
- » A sensible set of break clauses should be included in order to allow landlords to repossess with a minimum of three months' notice, as is the case in other countries

with a similar rental regime. These would apply if the landlord wishes to sell or occupy the property, if tenants fail to pay the rent or mistreat the home, and in other reasonable circumstances. To ensure reciprocity, tenants should be required to give their landlord three months' notice of intent to leave.

True security of tenure has to be underwritten by light-touch rent stabilisation

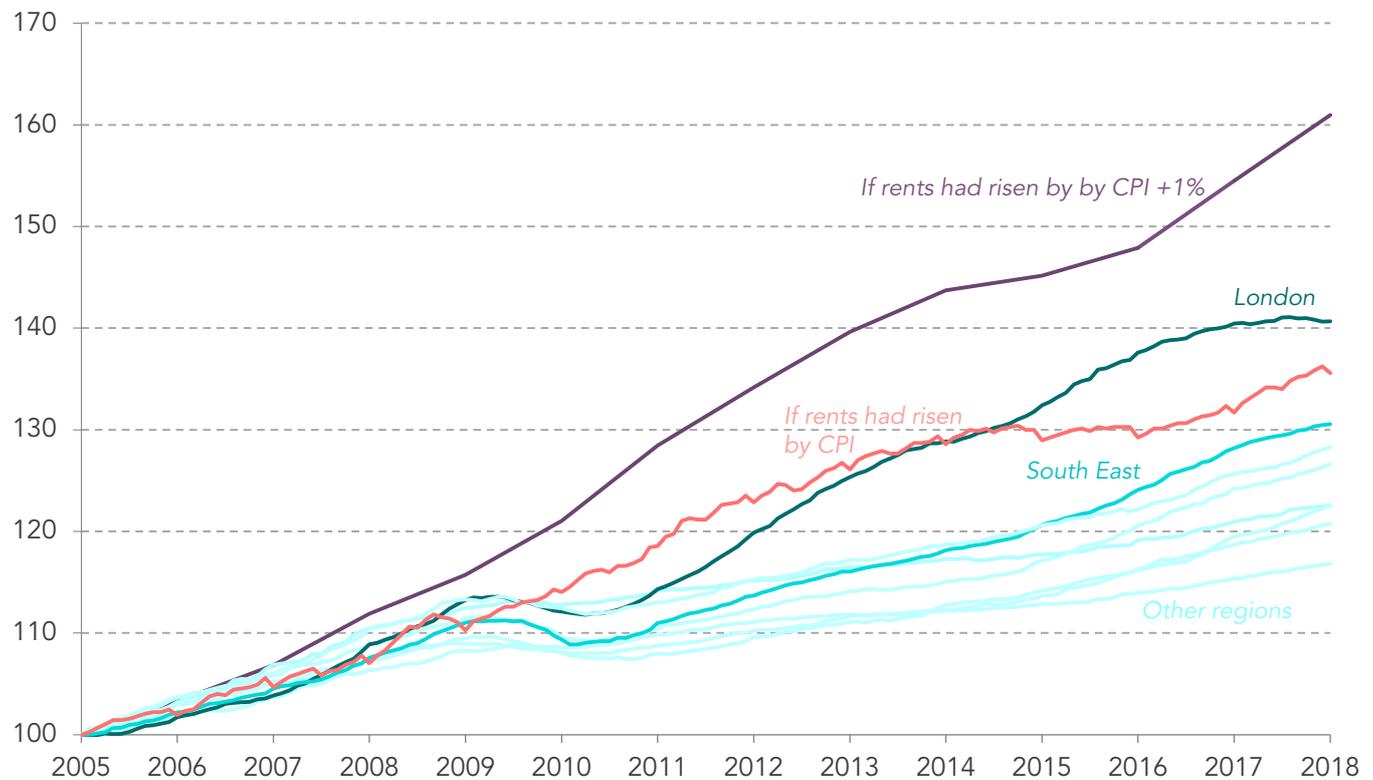
Introducing longer leases would be a huge step towards helping today's young people achieve better housing outcomes. But overall tenant outcomes could still be undermined by volatility in rental costs, stemming either from market movements or from a landlord putting up rents so high as to undermine the purpose of an indeterminate tenancy. While intervention with rent levels is viewed very negatively in the UK, greater security of tenure for young (and old) renting families cannot be achieved without some policy to protect them against rent spikes.

The debate in this area too often depicts a stark choice between hard rent controls designed to control the level of rents and depress the long-run equilibrium, and an entirely unregulated, market-based approach. Yet almost no other country takes either tack, preferring instead to put in place more modest smoothing mechanisms that allow market rents to prevail while providing a pressure valve to protect tenants from dramatic rental spikes.

To begin, limiting in-tenancy rent rises to CPI+X per cent would give tenants rental security and be consistent with the spirit of indeterminate tenancies. Moreover, as Figure 3 suggests, at least recently rents have not consistently outpaced inflation in any area other than London, and even in the capital rents have lagged behind CPI+1 per cent.

Figure 3: Rents have not increased above inflation over a sustained period, except in the capital

Rental price index by regions (Jan 2005=100): England



Source: RF analysis of ONS, Index of Private Housing Rental Prices February 2018

However, there are reasons not to adopt such an approach. Over this period (the only one for which we have consistent data) wage and income growth has been subdued, failing to surpass inflation to the same extent as in pre-crisis years. This backdrop will therefore have influenced the pattern of slower rent rises we've seen. Under any 'CPI+X' approach with no rent review within tenancies we might therefore want to adopt a level of 'X' that matched long run expectations for real-terms wage growth. But there is a lot of uncertainty – even more so at the moment than in years past – about what that level will be.

Moreover, a hard cap every year would either need to be set so high as to have no real traction or so low that it would cause real distortions over time. As Figure 4 shows, average rent rises across England topped CPI in two-fifths (62 months) of the 146 months covered. Larger spikes were less common, while average rents still rose more quickly than CPI+1 per cent in one-fifth (30 months) of the period. Given both these concerns, a rent stabilisation mechanism that provides landlords with a 'reset button' during a long tenancy is arguably the most sensible proposition, providing tenants with stability but still allowing rents to track the market over time.

Figure 4: Above-inflation rent rises are not uncommon on a month by month basis

Number of months when rents rose faster than inflation between Jan 2006 and Feb 2018 (n=146): England



Source: RF analysis of ONS, Index of Private Housing Rental Prices February 2018

i Policy option

- » **Introduce light-touch rent stabilisation that limits rent rises to CPI inflation for set three-year periods.**
- » New tenants should have their annual rent rises limited to a maximum of CPI inflation for three years, after which a rent review can be undertaken. The landlord must give six months' notice of any subsequent change

in rent, and must provide evidence showing that the new proposed rent is in line with market norms and/or reflects significant improvements made to the property. After any rent review a further three years of rent rises of CPI or less would follow before another review could take place.

A new housing tribunal is needed if tenancy reform is to work for all parties

Indeterminate leases and light-touch rent stabilisation could increase the demand for adjudication whether on the landlord's side (for example, if he/she wished to evict a recalcitrant tenant or move back into a property) or the tenant's (for example, if he/she wished to contest a rent rise). In England and Wales this poses a problem because we currently have no nimble or inexpensive forum where both parties could take such

matters. Instead, the limited cases that are presently actionable such as possession on statutory grounds have to be taken through the county court with all the costs and delays that process involves.¹⁰

Again, the experience of other countries is instructive. In Scotland, for example, the government transferred jurisdiction for possession proceedings in the PRS from the sheriff's court over to the first tier tribunal with the introduction of indeterminate tenancies in 2017. And in many countries and municipalities that have rent stabilisation, such as San Francisco, tenants can file a petition with a board for a decision if they believe their rent has breached any cap.

The government has indicated that it is interested in better resolution of housing disputes, consulting on options for strengthening consumer redress in the housing market earlier this year and currently exploring the case for a new 'Housing Court'.¹¹ The more consistent and expert decisions a tribunal is likely to make would lead to a clearer body of case law.

Without an effective body to adjudicate on disputes, changes to security of tenure could lead to landlords being snarled up in county court proceedings. And rent stabilisation would be undermined if tenants had no effective complaints mechanism through which to air a grievance. The success of a new housing tribunal would depend on a number of factors, however. It would need to:

- Be cheap – in the Netherlands for example, a tenant can challenge a new rent for just €25;
- Be fast – to ensure that landlords could reassert control over their property efficiently and tenants could nip any egregious rent rises in the bud;
- Be able to offer effective remedy – for example, by making possession orders or to require landlords to refund any excess rent they have charged, or even apply penalties if rents are set above the cap; and
- Be clear – underpinned by information to landlords and tenants on their rights and responsibilities, so each would know both what actions they could bring to the tribunal and what actions could be brought against them.

i Policy option

- » Establish a new housing tribunal with powers to adjudicate on possession applications and challenges to rent rises which is cheap to access, speedy and can offer effective remedy.

¹⁰ For further details see Ministry of Justice, *Mortgage and Landlord Possession Statistics in England and Wales, October to December 2017 (Provisional)*, February 2018

¹¹ MHCLG, *Strengthening consumer redress in housing*, 18 February 2018

Landlord registration would improve communication and drive up standards

Part of the challenge of implementing existing tenancy law and the changes suggested above is that there is no official information held on landlords in England, making communication with the group ad hoc and unreliable. This is not the case in Scotland, Wales or Northern Ireland however, where landlords are required to register with their local authority and provide basic information on their holdings. A similar approach in England would deliver many benefits.

By holding a comprehensive record of rented properties local authorities could keep landlords better appraised of relevant changes with which the vast majority are keen to comply. Registration would also make it easier for government to identify landlords who were not abiding by the rules, by failing to declare rental income to HMRC for example. Finally, local authorities could undertake quality checks and have the power to strike landlords off the register – ending their lawful ability to rent property – in cases of rogue behaviour.

i Policy option

» Bring England into line with the rest of the UK by requiring landlords to register with their local authority if they rent out property.

» Local authorities should have the power to inspect properties and to remove landlords from the register in the event of a serious breach of standards, thereby barring them from continuing to trade.

Affordability for renters on low-to-middle incomes also needs to be examined

While rent stabilisation would protect tenants from dramatic rent surges, it does nothing to address the overall problem of affordability many experience in the PRS. In the long term, this can only be resolved by bringing supply and demand into better balance (the topic we turn to in Sections 3 and 4 of this report). But in the short term, housing benefit (HB) is best placed to do the job.¹²

The rules that govern both HB eligibility and the generosity of awards have changed significantly over time, not least because a rapidly expanding PRS has resulted in an HB bill of close to £25 billion today. Table 1 documents these changes. As this makes clear, today's young private renters are doubly disadvantaged when it comes to housing support. They are at the sharp end of policies that have eroded the value of HB for all over time, while also being subject to age-specific restrictions such as the extension of the Shared Accommodation Rate to under-35s in 2012.

¹² For ease, throughout this section we use the term housing benefit to encompass local housing allowance and the housing element of Universal Credit.

Table 1: Both the eligibility for, and generosity of, housing benefit has diminished over time

Changes to the housing benefit regime 1982-2017

Year	Policy change
1982	Social Security and Housing Benefit Act introduced; legislated for replacement of the National Rent Rebate Scheme and Rent Allowance Scheme with housing benefit
1988	Housing Act deregulated private sector rents and removed the right to independent assessment of 'fair rents', with housing benefit expected to "take the strain" Housing benefit eligibility of students aged under-25 substantially cut
1996	Housing Act introduced Local Reference Rents (determinations of average market rents for dwellings of the same size in an area) in order to contain housing benefit Shared Accommodation Rate (SAR) for under-25s introduced entitling young people to an award sufficient to cover a room in shared housing
2007	Welfare Reform Act began national roll-out of Local Housing Allowance (LHA) to the private rented sector
2011	From April, LHA rates based on 30th percentile of local market rents rather than median and subject to national caps LHA capped at 4 bedrooms rather than 5 Rules allowing private tenants to keep difference between rent and LHA up to £15 a week removed
2012	Extension of the Shared Accommodation Rate (SAR) to most single housing benefit claimants in the private rented sector under the age of 35
2013	From April, LHA no longer subject to monthly review by rent officers to ensure kept pace with real rents. Broke link with real rents and uprated by CPI instead Welfare Reform Act introduced benefit cap of £26,000 a year for a couple or family with dependent children and £350 per week for a single person with no children. Those over SPA are exempt
2014	LHA uprated by 1% in April New lower LHA national caps introduced
2015	LHA uprated by 1% in April
2016	LHA levels frozen until 2020 Reduction in the household benefit cap from £26,000 to £23,000 in London and
2017	Removal (with some exceptions) of entitlement to housing element in Universal Credit from people aged 18 to 21; rescinded March 2018

Bold text indicates age-specific changes

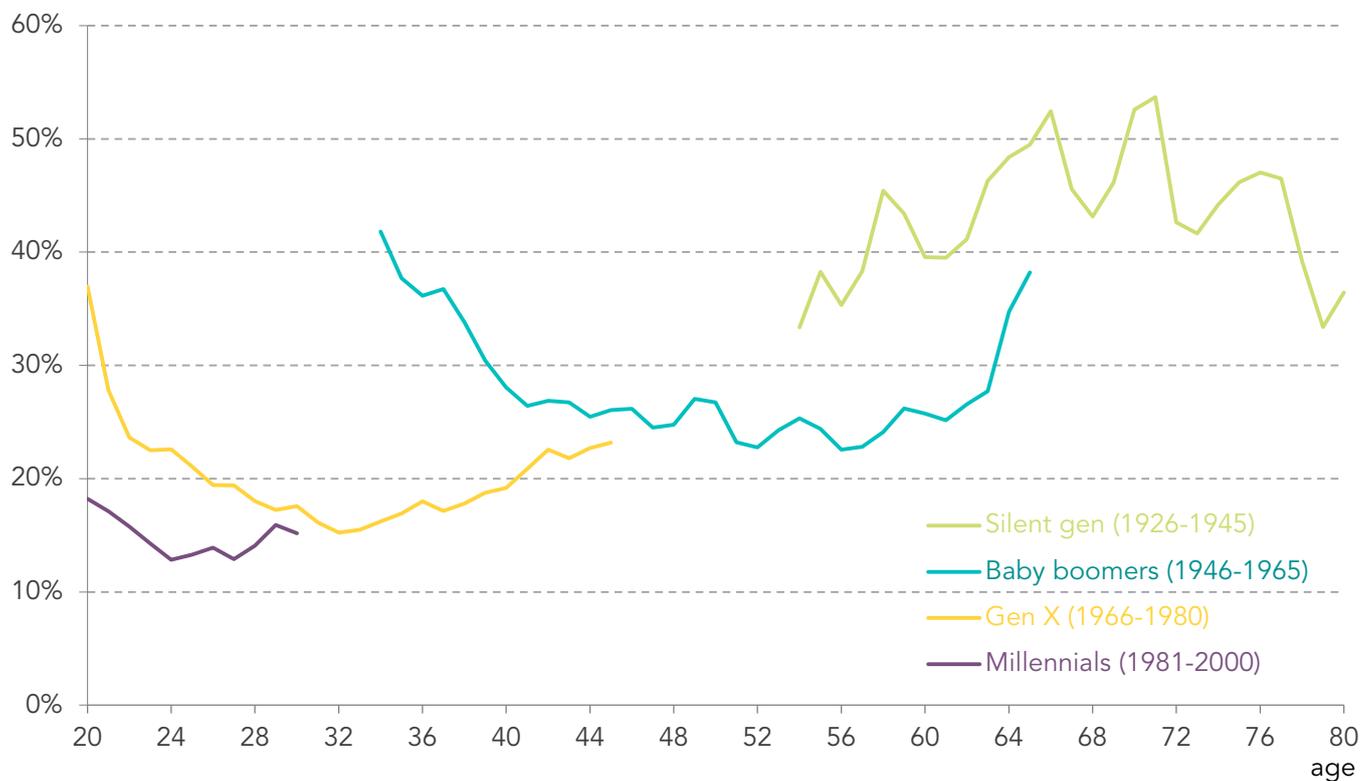
Source: Compiled from House of Commons Library briefings

In contrast, the HB system has been more generous towards (the far smaller number of) private renting pensioners. Their awards have failed to keep pace with real rents since 2013, but they enjoy more lenient rules than exist for the working-age population in relation to both capital and income. Pensioner recipients are also exempt from the strictures of the benefit cap.

As Figure 5 shows, private renting millennials with low enough incomes to be eligible for support have just 13 per cent of their rent covered by HB on average at age 25; compared with a figure of 21 per cent among their generation X counterparts at the same age.

Figure 5: Today's young people find less of their rent covered by HB than in the past

Proportion of the average family's housing costs covered by HB, private renters in receipt of HB only (rolling two-year averages): UK

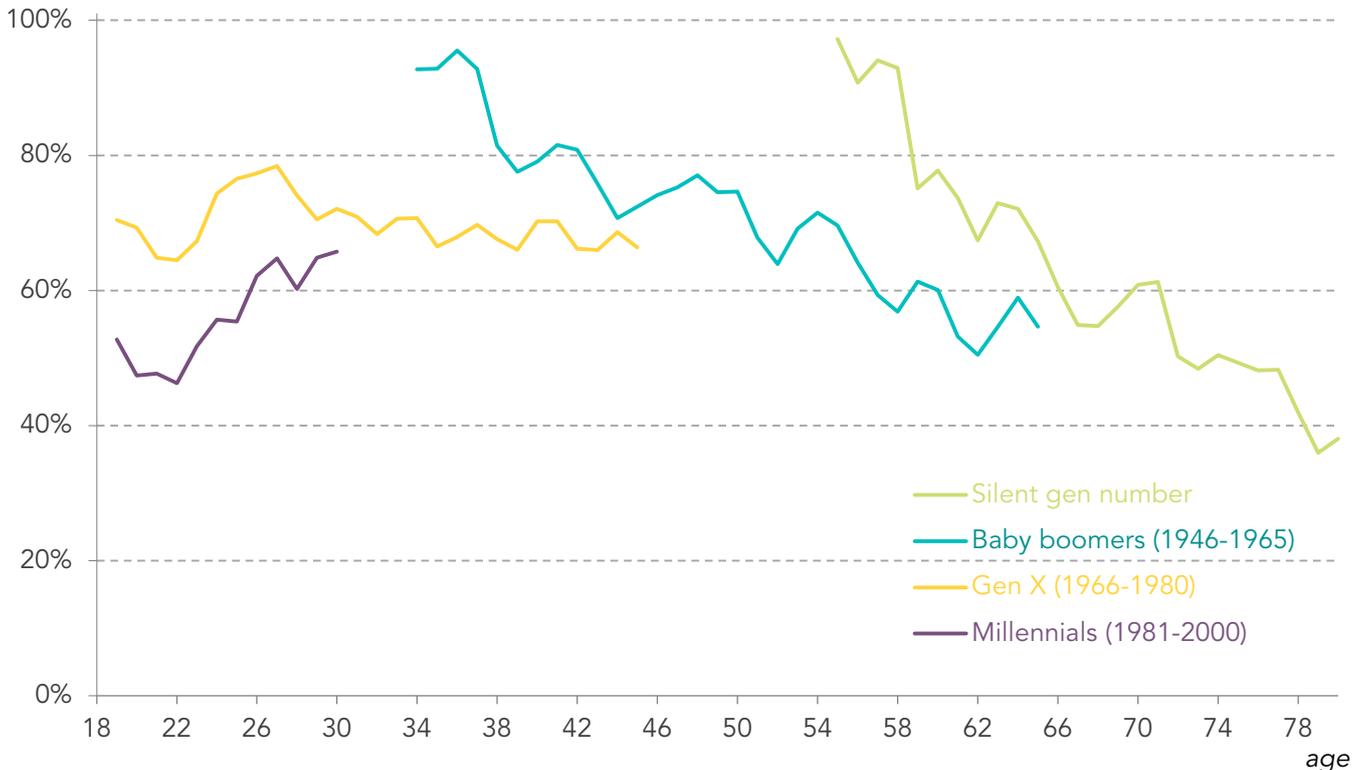


Source: RF analysis of DWP, Family Resources Survey 1994/95-2015/16

Moreover, given that the composition of private renters in receipt of HB has changed over time – many more are in work today than were in the past, for example – looking at the experience of all this group arguably gives too rosy a picture. In Figure 6 we look instead at the experience of private renting families who are not working. As this makes clear, HB covers on average just 55 per cent of the housing costs of millennials in this group at the age of 25, compared to 77 per cent of generation X at the same age.

Figure 6: Those who are not in work have been especially hard hit by HB cuts

Proportion of the average family's housing costs covered by HB, non-working private renters in receipt of HB only (rolling two-year averages): UK



Source: RF analysis of DWP, Family Resources Survey 1994/95-2015/16

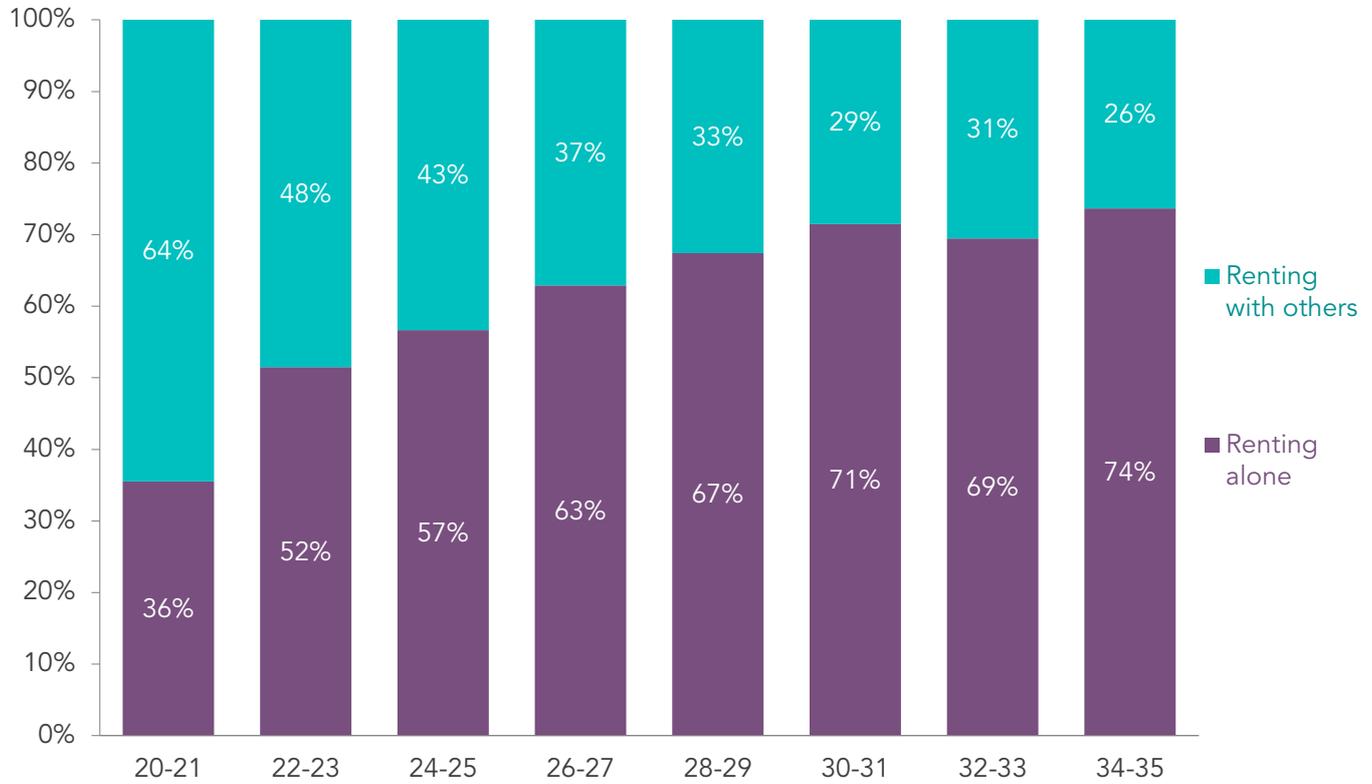
Long term, the key way that value can be put back into HB for young (and older) people is to reconnect housing support to real rents. Some are concerned that this would serve simply to drive up rents at the bottom end of the market. But there is only limited evidence to suggest that this has worked in the opposite direction, with recent cuts not leading to marked rent reductions. While the various parts of the HB market have responded differently, analysis shows that on average 89 per cent of the incidence of reduced LHA entitlements to date have fallen on tenants, and 11 per cent on landlords.¹³

Short term, interrogating the logic underpinning the age-related restrictions on HB makes more sense. Since 2012, HB claimants under the age of 35 are only entitled to an award sufficient to rent a room in a shared house if they are single and do not have dependent children living with them. But, as Figure 7 shows, while sharing a home is quite 'normal' during one's 20s, by the age of 30-31 less than one-third of single, childless private renters who do not claim HB are living in this way.

¹³ DWP, *Econometric analysis of the impacts of Local Housing Allowance reforms on existing claimants*, July 2014

Figure 7: Even for those on higher incomes, sharing with others is normal in one's 20s, but far less so by the age of 30

Private single renters without dependent children not in receipt of HB by sharing status, 2016-2017: GB



Source: RF analysis of DWP, Family Resources Survey 1994/95-2015/16

i Policy option

» Reduce the age at which young people can only claim the shared accommodation rate (SAR) to under-30 as opposed to the current rule of under-35.

» In the longer term, link LHA levels back to real rents by updating in line with observed price rises in each BRMA.

Taken together, the programme of action set out in this section would lead to significant improvements in the lives of private renters – young and old – today and in future years. It would allow them to call their rented house a home; protect them from rental spikes as well as provide better support with ongoing housing costs if incomes are low; and offer more routes for redress if their living conditions fall below basic standards. Moreover, we do not believe that landlords have anything to fear from such reforms. Their right to possess their property is protected and arguably enhanced; their ability to set rents in line with market rates is not compromised; and they, too, would benefit from better systems and processes resulting in a more professional landlord body in the future.

Even with this multitude of reforms, however, we anticipate home ownership remaining the preferred tenure for many young people. Just how policy can best support their ambitions is the topic we turn to next.

Section 3

Rebalancing housing demand

In the previous section we looked at how the private rented sector could be reformed to make it fit for purpose. By improving the security and affordability of the tenure, the changes we suggest could affect our propensity as a nation to buy our homes over the longer term. Nevertheless, we expect home ownership to remain the firm ambition of the majority of young people. So how best can policy support first time buyers? In this section we look at schemes that have sought to help young people get a foothold on the property ladder in recent years, but conclude that one-sided, demand-boosting government support is an inadequate response. Instead, we favour a more balanced approach, increasing the market power of young people by reducing demand from the 'over-housed' through wholesale reform of the tax system.

Getting on the housing ladder is far harder than it was in the past

Home ownership remains an enduring ambition for young people today – recent research shows, for example, that 65 per cent of 18 to 40 year olds who currently do not own a property hope they will one day.¹⁴

But for many, the key barrier is less the ongoing costs of servicing a mortgage (which in a low interest rate world is often an easier prospect than that faced by previous generations) and more the deposit requirement. Previous research for the Intergenerational Commission has for example shown that the length of time for the average young family to save for a typical first time buyer deposit has increased from just 3 years in the 1990s, to 19 years today.¹⁵ While rising house prices (relative to incomes) are a key reason why upfront costs have increased so rapidly in recent years, tighter credit conditions have also played a role (see Box 1 for more details).

14 L Marshall & N Smith, *First-time buyers, An early life crisis: Britain's homeownership aspirations*, NatCen Social Research, March 2016

15 A Corlett and L Judge, [Home affront: housing across the generations](#), Resolution Foundation, September 2017

i Box 1: The mortgage market review

While rising house prices (relative to incomes) are a key reason why deposit requirements have increased so rapidly in recent years, tighter credit conditions have also played a significant role. The Mortgage Market Review (MMR) of 2014 aimed to end the loose lending practices that had characterised the 2000s. The MMR banned self-certification mortgages, for example; tightened the rules around interest-only mortgages; and demanded more stringent affordability checks by lenders, including 'stress testing' a potential buyer's ability to cope with future interest rate rises. There have been some offsetting developments in lending policy – for example, buyers today can get mortgages for much longer terms than were standard in the past. Overall however, it's clear that those wanting to access home ownership today face tighter credit conditions than their predecessors a decade ago.

One potential response to this barrier is to row back on recent reforms, but that would be a mistake. Certainly,

continued macro-prudential concerns mean there is little scope for any significant loosening of the credit regime in the foreseeable future. There are, however, ways that lenders *could* innovate to help young first time buyers. For example, evidencing a steady income to lenders can be a challenge for the increasing number of young people working on short-term contracts or a self-employed basis. Initiatives such as the *Rental Recognition Challenge*, whereby the government tasked Fintech companies to come up with ways to enable a borrowers' record of regular rental payments be taken into account by lenders, have much to recommend against such a backdrop.¹

- 1 S Clarke and C D'Arcy, *The kids aren't alright*, Resolution Foundation, February 2018
- 2 See *Rent Recognition Challenge: Using FinTech to help renters*, December 2017

Faced with falling home ownership rates, stagnating incomes and tighter credit conditions, governments have sought to improve access for young people via a number of demand-side interventions in the housing market. From 2008 onwards there has been an ever growing number of schemes either implicitly or explicitly branded as 'Help to Buy' (HTB). Box 2 sets out the many initiatives to date.

i Box 2: Supporting home ownership over time

In the last 10 years the UK government has introduced a number of demand-side policies to support home buyers.

The first such scheme, *HomeBuy Direct*, provided buyers with the option of a government loan of 30 per cent of a property value. Alongside a 5 per cent deposit, this effectively reduced the size of the mortgage required to 65 per cent of value. *HomeBuy Direct* was heavily restricted: it was only accessible by first time buyers with household incomes below £60,000 a year who could demonstrate that they were not able to purchase a new build home within suitable travel distance from their place of work without government assistance.

In 2011, as funding for *HomeBuy Direct* ended, a new – but very similar – scheme was launched. *FirstBuy* operated on the same principles as its predecessor, providing equity loans to first time buyers with household incomes under £60,000 a year. However, the loans were slightly less generous, at 20 per cent of value.

A large expansion was announced in 2013, with the introduction of *Help to Buy equity loans*. This scheme

operated in much the same way as *FirstBuy*, but its eligibility criteria were, and still are, much wider. Although equity loans are limited to new build properties worth £600,000 and under, there is no cap on the income of potential applicants. And since February 2016, *Help to Buy equity loans* have been made available for up to 40 per cent of the value of a new build property in London. While no interest is charged on an equity loan for the first five years, from year six onwards a ‘fee’ (which increases annually) is charged. Those who took out the very first equity loans are now about to start paying these fees.

Alongside these loan schemes, the *Help to Buy mortgage guarantee* was introduced in 2013, giving a government guarantee on loans made to first time buyers or home movers and enabling lenders to offer loan-to-value mortgages of up to 95 per cent. The scheme ended in December 2016. Matched savings products including the *Help to Buy ISA* and more recently the *Lifetime ISA* have also been introduced to encourage saving towards a deposit, while stamp duty cuts have been targeted at first time buyers.

Such schemes were widely welcomed in the early part of this decade, when confidence in the housing market was low and housing starts had fallen precipitously from 180,000 in 2007 to 100,000 in 2012. But with house building picking up, and a large rises in house prices observed in many parts of the country over the past five years, the time has arguably come to review this narrow approach to supporting the housing demand of first time buyers.

But demand-side interventions sometimes have unhelpful consequences

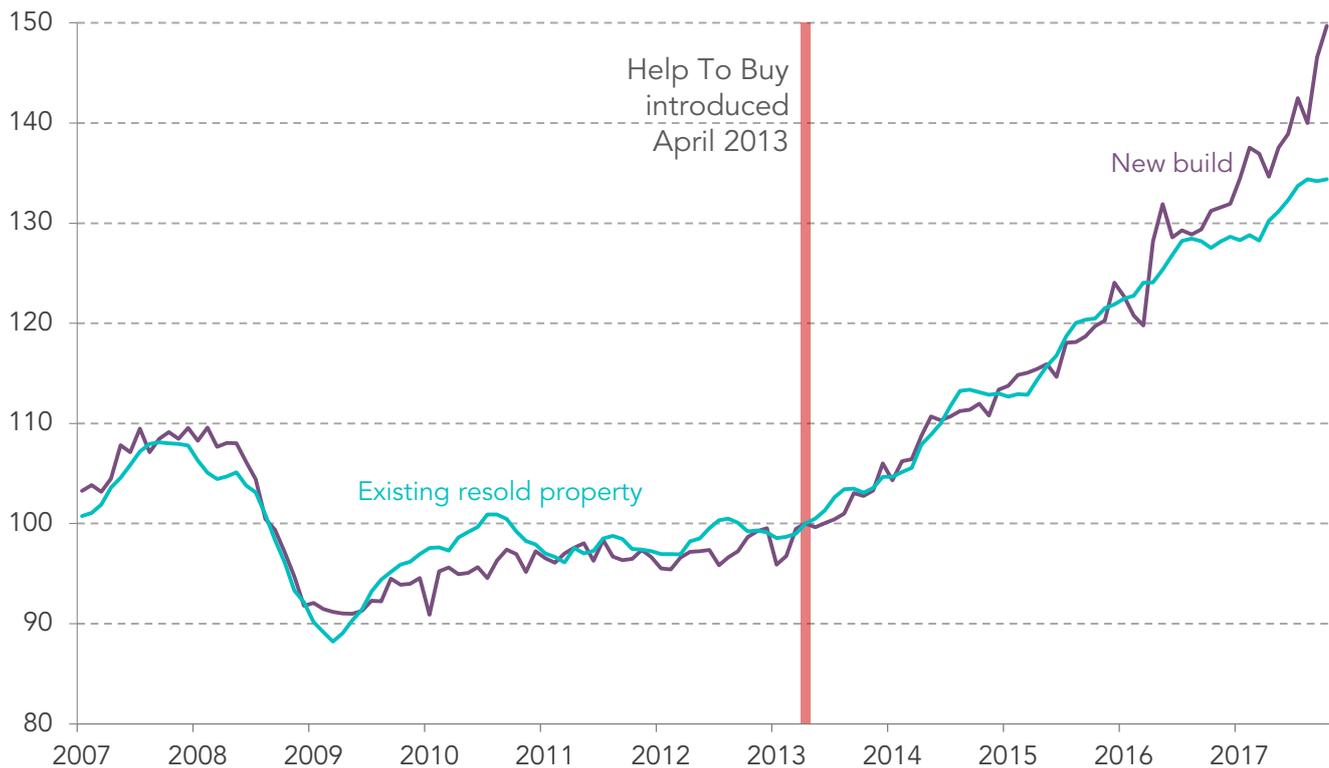
The Help to Buy (HTB) equity loan programme is the most enduring of the various schemes. To date, it has enabled 140,000 families to buy a new build property in England, with many more expected to take advantage of support being offered up to 2021. However, its effects on the housing market are now becoming clear – and bring into question whether the scheme should continue in its current form.

Critically, there is increasing evidence to suggest that this demand-side intervention is increasingly being ‘baked’ into house prices. Figure 8 charts prices of new builds and existing stock in England between 2007 and the end of 2017. As this makes clear, since early 2016 the growth in new build prices has outpaced price growth for existing resold property, strongly suggesting that equity loans have enabled developers to set prices at higher levels than otherwise. This effect is by no means limited to London only, with house price data suggesting it has taken place across the country. While build statistics are subject to significant revisions, the divergence between the growth rates of new

build and existing property prices is widespread and has continued over a period of almost two years, suggesting that what we are observing here is a real effect and not just a statistical artefact.

Figure 8: Help to Buy has helped inflate new build house prices

House price index by type of build (April 2013=100): England



Source: RF analysis of ONS house price index

HTB appears then to have served a useful purpose, then, when it was first introduced – restoring confidence to developers and promoting a pick-up in house building. But its effect looks increasingly distortionary, suggesting that it may be time to phase it out. Ending the scheme would have the additional advantage of lowering the short term cost. While the loans don't appear in the government's annual deficit and over the longer term their impact on the public finances will be small – the loans will be repaid with interest – in the near term the net cost of the loans in terms of higher public sector net debt is significant.^{16 17} Against a tight fiscal backdrop, and with the government specifically targeting a reduction of the debt-to-GDP ratio, the implication is that spending on HTB directly constrains the government in other areas.

16 MHCLG previously estimated, before announcing the extension of the scheme out to 2021, that the total cost of the scheme in current prices is estimated to be between £16 million and £1.2bn, with a central estimate of £494 million.

17 The OBR forecasts, for example, that over the final three years of the scheme the net cost of the equity loans, in terms of the government's cash requirement, will be just under £10bn. See *Economic and Fiscal Outlook*, OBR, March 2018 for further details.

The government has committed to keeping the scheme until 2021 meaning that a programme initially implemented to help resuscitate the housing market after the crisis will have, in a more expansive form, lasted for 13 years. That seems long enough. However, the government could pursue a gradual exit strategy rather than turning off the taps at that point.

There are a number of ways HTB equity loans could usefully be restricted. For instance, it would be possible to return to a smaller scale scheme along the lines of its pre-2013 predecessor by reintroducing a household income cap (which was then set at £60,000) reducing deadweight costs and limiting its use to first time buyers. Only 25 per cent of HTB purchases have been from those with household incomes above £60,000, so this would not involve a rapid shrinkage of the scheme. But it would sensibly limit its reach, and associated impact on house prices.

i Policy option

- » Target Help to Buy equity loans by making them income-contingent, offering assistance only to households with incomes of less than £60,000 a year

A household income cap favours individuals over couples however. Single purchasers of property will be able to earn significantly more than couple purchasers and still access the HTB loan scheme. For this reason, an earnings cap could also be considered. It seems reasonable to expect that individuals at the top of the earnings distribution – all those earnings more than around £50,000 a year are in the top 10 per cent of earners – should not receive government support if they wish to purchase a property.

i Policy option

- » Target Help to Buy equity loans by making them earnings-contingent, offering assistance only to individuals earning less than £50,000 a year, if either partner in a joint application earns

While young people struggle to become home owners, many in the older generations are 'over-housed' – and often 'under-taxed'

Rather than simply raising effective demand in a small part of the housing market a better approach would be to rebalance demand away from other groups and towards young adults. Such an approach needs to start by identifying where the demand we would be happy to see reduced lies. It is natural for families to want better and bigger housing as their incomes increase. And in a period of rising house prices, property is an attractive investment choice too. But clearly 'over-housing' – a term which we use

here to mean owning multiple properties or homes that are significantly larger than ‘needed’¹⁸ – has downsides for those who are competing in a market where we know supply responds only slowly to price.¹⁹

Table 1 sets out the current extent of potential ‘over-housing’ in Great Britain. There are over 900,000 second and empty properties, for example, comprising around 3 per cent of the total housing stock.²⁰ Adding in properties which are under-occupied and owned, ‘over-housing’ accounts for one-third of Britain’s housing stock (and if we include additional properties that are owned but then rented out that lifts the figure to close to half).²¹

Table 1: ‘Over-housing’ in Great Britain

Type of 'over-housing'	Estimated number of properties	Proportion of total housing stock
Second homes	590,000	2%
Empty properties	340,000	1%
Under-occupied owner-occupied homes	7,900,000	29%
Total	8,830,000	32%

Notes: Under-occupied properties defined here as all those with more than one spare room

Source: Second homes and empty properties, *Wealth & Assets Survey*, 2014 to 2016; under-occupied homes, *Family Resources Survey 2015/16*

There are a whole host of reasons why families may end up ‘over-housed’ in these different ways. It can be the product of happenstance (for example, if couples form and bring two properties to the family unit or an individual who already owns inherits another property) as much as deliberate design (buying a holiday home or holding an empty property for speculative purposes). And unsurprisingly, there is a strong generational angle to the phenomenon. As Figure 9 shows, baby boomers comprise 61 per cent of households owning second homes and 42 per cent of empty homes. They also account for 44 per cent of under-occupied homes, though the silent generation also form a large part (32 per cent) of this group.

18 It is common practice to measure under-occupation with reference to the bedroom standard here we take under-occupation to mean having two or more spare bedrooms in a home

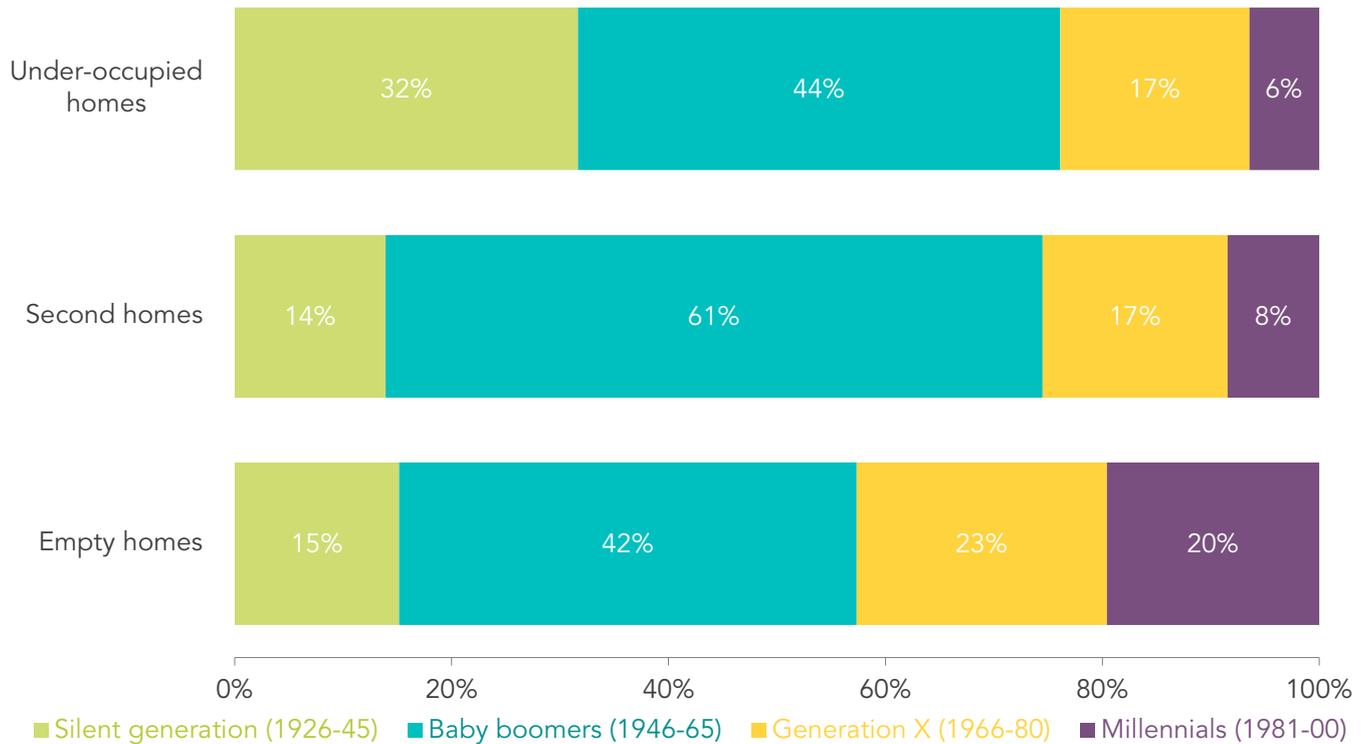
19 K Barker, *Review of Housing Supply Final Report – Recommendations*, March 2004

20 While council tax data collected from England, Scotland and Wales suggests a similar number of second and empty properties in total to WAS the split between these two types of over-housing is almost reversed. The exact reason for this divergence is unknown, although it could stem from the fact that empty properties are more easily identifiable by local authorities than second homes.

21 Resolution Foundation analysis of DWP, *Family Resources Survey 1994/95 to 2016/17*

Figure 9: Those who are 'over-housed' are much more likely to be from older generations

Proportion of 'over-housed' homes by generation of owner: Great Britain



Notes: Under-occupied properties defined here as all those with more than one spare room.

Source: Second homes and empty properties, *Wealth & Assets Survey*, 2014 to 2016; under-occupied homes, *Family Resources Survey 2015/16*

If we wish to rebalance demand away from the 'over-housed' then we might look first to making changes to the property taxation system – covering stamp duty, council tax and capital gains tax – so as to slightly disadvantage purchasers and owners of additional property. Yet while entry into and exit from our 'over-housed' categories *are* subject to additional taxation – in part thanks to relatively recent reforms – the holding of large and additional properties is more leniently treated and sometimes tax *advantaged*. While this outcome stems at least in part from the fact that it is easier to collect tax at a point of transaction, in our view effective demand for housing could be improved by taking a different approach. We look at options in each the different tax areas below, starting with stamp duty.

Recent stamp duty land tax reforms represent a step in the right direction, but more can be done

Stamp duty has long been the subject of proposals for reform. It is paid by those purchasing a property on a 'slice' system²² and, although it is highly progressive and easy to collect, it impedes the proper functioning of the housing market by reducing

²² If a household is purchasing a main property then they pay no tax on the first £125,000, and a higher rate on additional slices of the property's value up to 12 per cent on the portion of the value above £1.5 million.

the incentive for individuals to move for work, downsize or simply to buy to a home that more closely matches their preferences.²³ On this basis, some favour outright abolition. But such an approach would have significant downsides. For example, if this were implemented independently of other changes to housing taxation it would be very expensive indeed and provide a large benefit to higher-income households, largely in London and the South East. For that reason, and because of the many virtues of a broad tax base, we do not advocate a full abolition of the tax but rather an approach that builds on existing reform.

Since 1 April 2016 a stamp duty surcharge has been applied to purchasers of additional properties, including those already owning a home overseas. This surcharge of 3 percentage points applies to all 'slices' of the tax schedule and equates to a modest increase in the tax bill for purchasers of additional property compared to those purchasing a main residence. For example, the stamp duty surcharge doubles the tax paid on the purchase of a property worth £500,000 from £15,000 to £30,000.

Welcome though these reforms are, more could be done. Our view is increasing liquidity in the housing market through a reduction in stamp duty would have benefits for both first time buyers and movers, increasing transactions and enabling better matching (potentially including moves to smaller properties from those who under-occupy). At the same time, any reduction in the main rates would increase the relative effect of the 3 percentage point surcharge on purchases of additional property. There are two main ways to cut stamp duty: cut rates or increase the tax-free threshold (currently £150,000 for most buyers and £300,000 for first time buyers).

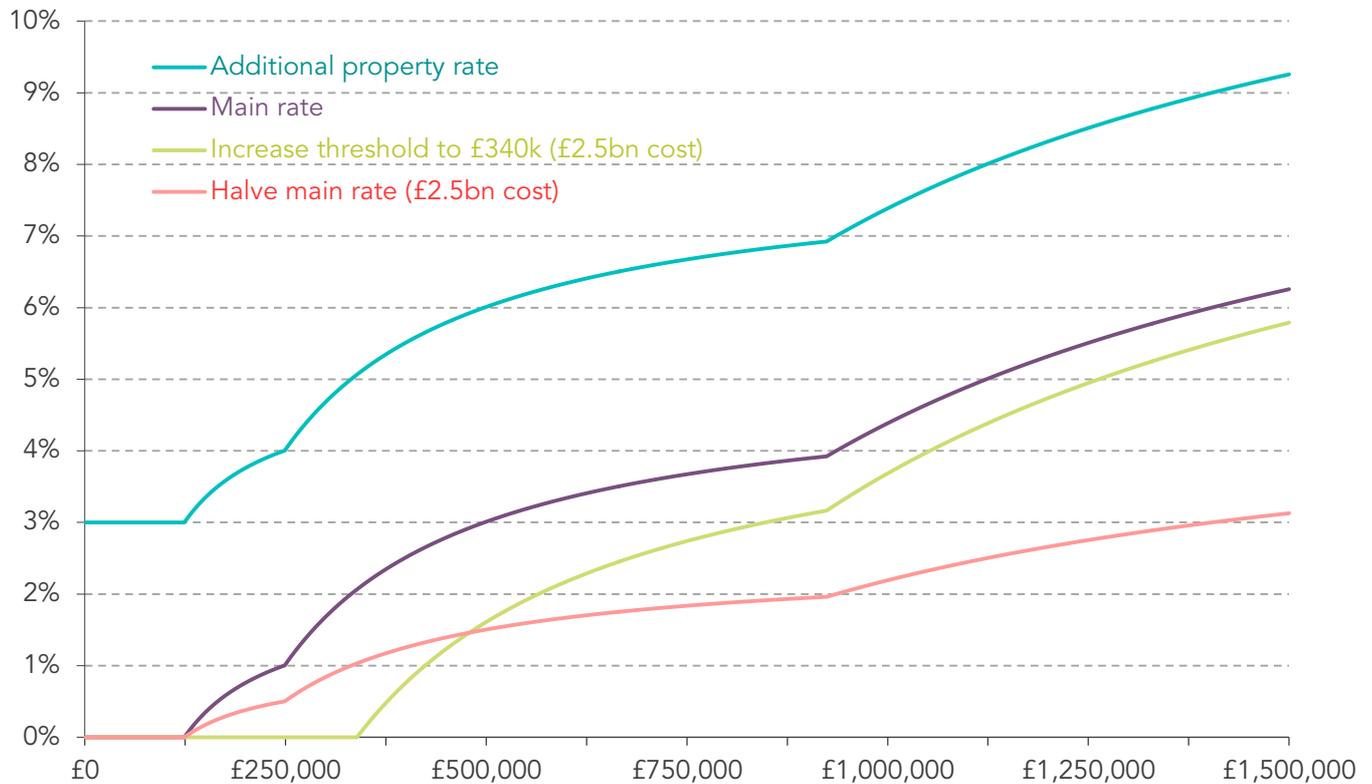
In relation to the former, we estimate that halving all main rates of stamp duty would cost around £2.5 billion in 2018-19. It would very significantly widen the gap between the tax paid by most buyers and the tax paid by an additional property purchaser, particularly on purchases of higher value properties. For example an additional property buyer currently pays £24,000 more stamp duty on the purchase of an £800,000 property than someone paying the main rate of stamp duty; if main rates were halved this surcharge would increase to £39,000.

Turning to thresholds, we estimate that the same £2.5 billion cost would equate to increasing the point at which stamp duty is first paid from £125,000 to £340,000 (while leaving the rates above this point unchanged). This approach again significantly advantages first time buyers and movers, but has more of an effect lower down the property market. As Figure 10 shows, a threshold of £340,000 would imply lower effective tax rates than a halving of the rates on all purchases of property worth less than £480,000.

23 C Hilber and T Lyytikäinen, *Transfer Taxes and Household Mobility: Distortion on the Housing or Labour Market?*, Journal of Urban Economics, September 2017

Figure 10: There are two key options for reforming stamp duty and increasing the relative disadvantage to purchasers of additional properties

Effective rate of stamp duty by property value, various scenarios



Source: RF analysis of existing stamp duty tax schedules

A higher threshold, however, does have the significant disadvantage of narrowing the tax base and increasing the revenue risk from housing market volatility – more than half of liable property transactions in the current system are of properties priced under £250,000.²⁴ Increases to the threshold above £300,000 also eliminate the first time buyer advantage present in the current system, something which could be maintained – though at a smaller scale – if rates were cut instead. For this reason, we prefer taking action on rates.

i Policy option

- » Lower most stamp duty rates while increasing the premium paid by purchasers of additional properties by leaving rates for them unchanged
- » Rates of stamp duty on first properties should be halved (from their current levels of 2, 5, 10 and 12 per

cent) with rates of stamp duty on additional properties remaining at 3, 8, 12 and 15 per cent. This would cost £2.5bn.

24 Quarterly Stamp Duty Statistics, HMRC, December 2016

Taken in isolation of other tax changes this approach (and indeed, raising the threshold) could have an upward effect on house prices, to the extent that stamp duty costs are 'baked in' to market prices. This doesn't imply a deadweight loss however, because those purchasing property will have a higher value asset than otherwise and will have to find a smaller proportion of costs upfront too. Importantly too, lowering stamp duty will have a significant rebalancing effect, by making additional property purchases relatively more expensive. That is, the house price effect of a large stamp duty cut will be widespread whereas the tax cut effect will, of course, not be enjoyed by those purchasing additional property.

The special case of overseas buyers

Alongside this reform to stamp duty, it is worth pausing to consider the merits of taking additional action in relation to particular part of the market that has risen in prominence in recent years – namely that which relates to overseas buyers. Purchasing property in house price hotspots and holding it simply for speculative purposes is increasingly viewed as a problem. And while purchasers could be of any nationality, particular attention has been drawn in recent years to the activities of wealthy overseas buyers. While the stamp duty rules treat non-resident buyers in the same way as domestic buyers, other national and regional governments have taken a different tack (see Box 2).

i Box 2: The taxing question of overseas buyers

Most countries do not restrict purchases of residential property by overseas buyers, but some places where high house prices have become politically salient – or have endured for long periods of time – have implemented either *higher taxes*, or *tighter regulations* on overseas buyers.

Higher taxes

From August 2016 anyone not a Canadian citizen or permanent resident in Canada had to pay an 'additional property transfer tax' of 15 per cent tax on any property purchases in the **Vancouver** region; increased to 20 per cent in February 2018. A similar tax, set at 15 per cent, was introduced in **Toronto** and the surrounding area in April 2017. In addition, Vancouver has also recently introduced an annual 'speculation tax' on all residential property owned by those who are not income tax payers in the province, initially set at 0.5 per cent of property values but increasing to 2 per cent of value in 2019.

In **Australia** overseas buyers must pay an additional fee to purchase property, equivalent to roughly 1 per cent of the value of property. These fees start at \$5,500 (£3,010) for properties worth \$1 million or less, and increase in regular bands; for example, a property worth between \$9 million and \$10 million would be charged a fee of \$100,400

(£55,000). Further still, a vacant property tax is levied at the same amount as the purchasing fee referenced above on all properties that are left vacant for more than half the year and are owned by those not resident in Australia.

Tighter regulation

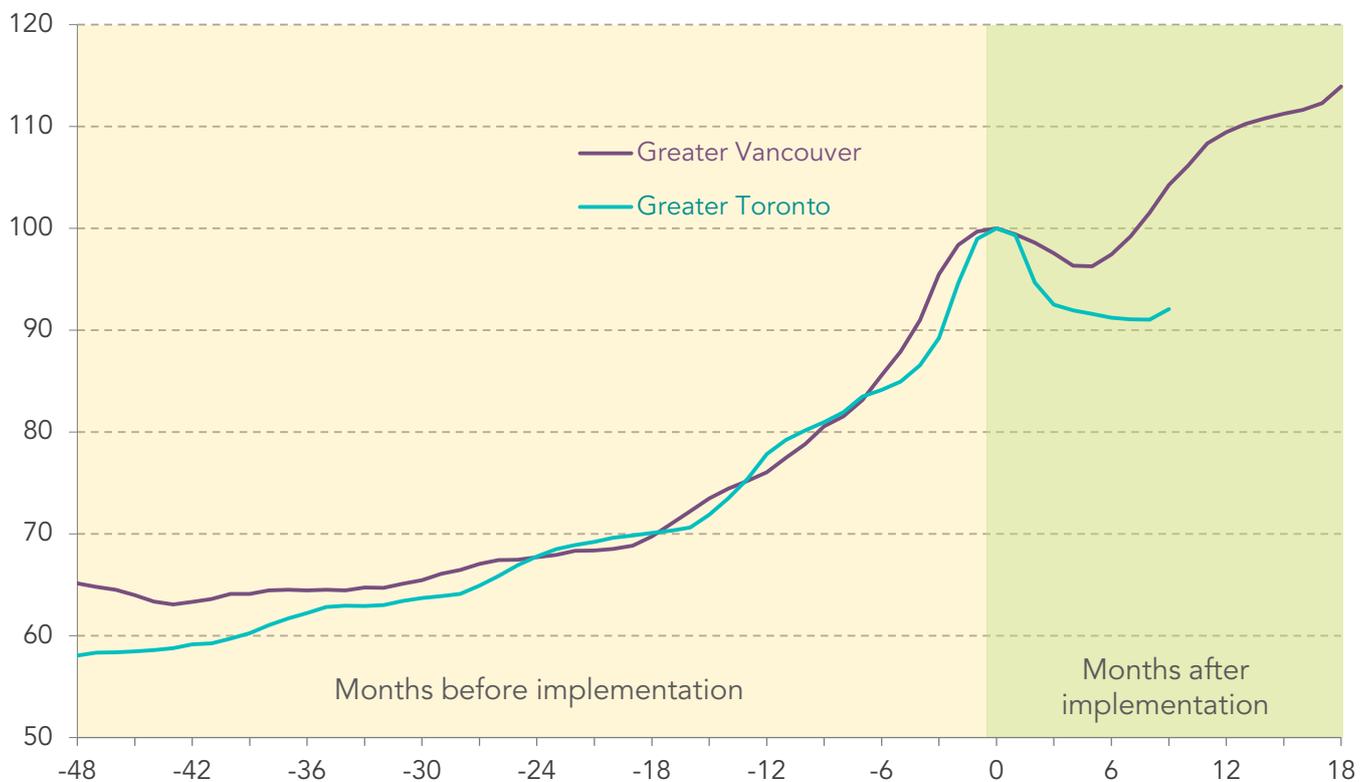
Australia also limits purchase of residential property by overseas buyers through regulation. Here overseas investors are banned from purchasing existing residential property – and can only purchase property that is an addition to the housing stock. In a similar vein, the **New Zealand** parliament is currently discussing legislation designed to limit overseas investment in residential property and land. Non-citizens will now only be able to purchase residential property in New Zealand if they have been resident in the country for more than a year, or if their purchase will increase the stock of housing.

In Europe, the Swiss government restricts purchases of holiday homes in **Switzerland** by overseas buyers through a permit system – only distributing 1,500 permits for such purchases each year. And in Denmark, non-Danish nationals can only purchase additional property if they live in the country and have done so for five years or more, or if they can prove 'special ties' such as having Danish relations or an extended history of travel to Denmark.

The impact of policy measures that increase the cost of property purchases by overseas buyers, or simply restrict it in some way, are often difficult to quantify. However, in two Canadian cities – Vancouver and Toronto – a flat-rate 15 per cent tax on overseas purchasers of property has recently been implemented. The impact of the introduction of these taxes on house prices in these city regions can be measured and is set out in Figure 11.

Figure 11: The introduction of additional tax on overseas buyers had a marked near term effect on house prices in both Vancouver and Toronto

Indices of changes in house prices by the number of months before and after the introduction of higher property transaction taxes on overseas buyers: Vancouver (implemented August 2016) and Toronto (implemented April 2017)



Source: The Canadian Real Estate Association

As this makes clear, house prices fell in the months immediately following the introduction of additional taxes on overseas buyers in both regions. However, Canadian policy makers are concerned about the extent to which demand will rebound once any initial uncertainty surrounding the introduction of the taxes dissipates. This is something the Vancouver experience – of an initial price correction followed by a return to strong growth after just six months – seems to suggest may have been the case. Policy makers are also concerned about the extent to which overseas demand might simply “migrate to other Canadian cities”.²⁵

Notwithstanding the uncertainty still surrounding these experiments, there may be merit in considering a similar approach in relation to some parts of the UK housing

25 Financial System Review, Bank of Canada, November 2017

market. What form this could take would obviously be hugely important to its effectiveness, and to its susceptibility to unintended consequences. And we should be very clear that limiting demand from overseas buyers group would not be about putting British-born individuals before others, but rather an attempt once again to re-point the housing market towards those younger, asset-poor households – many of whom may have previously migrated from Europe or further afield – who are residing in, and contributing to the UK economy but are struggling to access home ownership.

In pursuing such an outcome, a regulatory approach may be desirable to sit beside the additional stamp duty charge on additional properties that overseas buyers would face. This harder approach is attractive particularly if we have reason to think that non-resident buyers' housing demand is relatively unresponsive to changes in prices. As the IMF has recently highlighted, the UK's property market is increasingly bound up with the trends and fancies of an internationally mobile group of investors seeking return-generating assets in desirable locations such as London.²⁶ A high 'entry' tax may also lose some of its deterrence effect if it is replicated in other countries.

Given lots of uncertainty in this area, and the importance of accounting for local conditions and sensitivities, a sensible policy option could be to devolve the setting of any future restrictions to regional political leaders.

i Policy option

- » City and city-region mayors should be given the authority to limit residential property purchases in housing hot-spots to those resident in the UK.

Radical council tax reform could play a key role in rebalancing demand for housing

Elsewhere in the Intergenerational Commission we have considered option for wholesale reform of property taxation, highlighting the many problems with the existing council tax system and suggesting a variety of ways for reform.²⁷ Critically, we propose that a new property tax should more accurately reflect the current value of a person's home, a change which in and of itself would make holding a large and expensive property less attractive (as well as raise sufficient revenue to pay for the stamp duty cuts we propose in this note).

We recognise, however, that this is a radical change which needs careful implementation: its introduction may need to be phased, for example, and those with high value properties but low incomes would be able to roll up their liability until a point of sale or death.

Ahead of such changes it is also worth thinking about how the council tax system currently treats additional property, and how this might be reformed in order to

²⁶ Global Financial Stability Report, IMF, April 2018

²⁷ A Corlett & L Gardiner, [Home affairs: options for reforming property taxation](#), Resolution Foundation, March 2018

dis-incentivise over-housing. Unlike stamp duty, where barriers to entry are already higher for owners of second and additional properties, the interaction between council tax and the 'over-housed' is far less straightforward.

Second home owners are not subject to a council tax surcharge across most of the country (though as of April 2017, second homes in Wales can be charged a surcharge of up to 100 per cent) but, at local authority discretion, can be granted a *discount* of up to 50 per cent. Around 8 per cent of second homes received some form of discount in 2017.²⁸

Local authorities also have discretion in relation to empty properties, with both surcharges and discounts again being options. In Scotland and Wales, authorities can levy anything between a 100 per cent surcharge (the maximum is 50 per cent in England, though the government has announced plans to increase this to 100 per cent) and a 100 per cent discount. Discounts can be applied if properties are undergoing major repairs or alterations (for up to 12 months), or if the property is 'unoccupied and substantially unfurnished'. Members of the armed forces who are currently deployed overseas can also receive a 100 per cent discount. Councils similarly have the discretion to apply surcharges to properties that have been empty for more than one year (in Scotland and Wales) or more than two years in England. In 2017, 17 per cent of empty properties in England received a discount and 13 per cent were subject to a surcharge.²⁹

Under-occupiers are also treated differently in the council tax system. Yet, whereas public policy might want to encourage those who are under-occupying to downsize, those who are the sole adult occupier of a property instead currently enjoy a 25 per cent discount. In a more general sense, council tax also advantages under-occupiers in so far as they are likely to be in larger properties which would be subject to higher tax if property value and property tax were more closely aligned.³⁰

If the radical reforms that we advocate were introduced, council tax would be replaced by a recurrent property tax set as a proportion of property values and levied on the value above a certain allowance. So, for example, if the allowance was set at £100,000 all properties with value lower than £100,000 would not be liable for property tax, but all those with values in excess of this would pay an annual amount equal to a proportion of the value (for example 1 per cent) above £100,000. In such a system, it could be possible to transfer across the current approach to second and empty properties. However, this would have to be designed around the fact that a 100 per cent surcharge wouldn't be able to apply in a simple way to properties under the threshold. However, recognising that while landlords own additional properties they then use these to provide housing services to others we would give them an allowance for each rental property they own.

Rather than seeking to find a way to charge properties under the threshold a fair amount, another option could be charge council tax on a household basis – granting each household one allowance. This would mean that owners of multiple properties would be liable for property tax on the full value of these properties. If the tax was set at 1 per cent of property values and the allowance at £100,000, this would imply an annual surcharge of £1,000.

28 Council Taxbase 2017 in England, MHCLG, November 2017

29 Council Taxbase 2017 in England, MHCLG, November 2017

30 A Corlett & L Gardiner, [Home affairs: options for reforming property taxation](#), Resolution Foundation, March 2018

i Policy option

Alongside replacing council tax with a proportional tax, introduce changes that further support the rebalancing of housing demand

- » Council tax discounts on second and empty properties should be abolished with only limited exceptions remaining, for example if the property is undergoing substantial renovations

- » Under a reformed property tax system, levy the proportional property tax on the full value of additional properties

Alongside these changes, exit from multiple property ownership should also be encouraged

The other main element of property taxation is capital gains tax (CGT). It is applied to the gains on second and additional properties (subject to an individual annual allowance of £11,700 in 2018-19) at rates in excess of the main rates: while the main rates of CGT are 10 per cent for basic rate tax payers and 20 per cent for higher rate payers, sales of additional properties are charged at higher rates of 18 per cent and 28 per cent respectively. However, owners can pass on additional property at death without it being subject to CGT.

This combination of CGT premiums and forgiveness at death means there is little financial incentive for owners of additional property to sell the property. Therefore, just as reform to stamp duty and council tax can be used to tilt the balance towards most buyers and away from additional property purchasers, so changes to CGT might be used to shift the balance of effective demand.

It is of course, right that the gains associated with second and additional properties are taxed; much of the gain accrues not because of hard work by the owner (in fact upgrade and renovation costs can be used to reduce the tax liability), but because of wider changes in property values that take place outside of owners' control. It is for this reason that some even propose the charging of CGT on main residences.

However, the current approach is likely to discourage exit from additional property holding (and any extension to main properties might have the same effect, with a particular impact on the sales of under-occupied properties), with individuals choosing instead keep property or pass it on as gifts to family members. We would like to see a property market in which more of these types of properties are offered for sale, not less. With that in mind, one idea worth of consideration is to offer a CGT *cut* to owners of additional homes where they sell property to non-owners.

If implemented permanently, this would have a very significant long run cost. And it may not even act as a large incentive to sell, with additional property owners potentially holding out for further tax cuts. For this reason, a *temporary* cut in CGT on the sale of additional property when sold to a non-owner is a preferable option.

As with the stamp duty proposals discussed earlier, this could involve either a cut to CGT rates, or an increase in the allowance. However, in this instance a reduction in rates would lead to very substantial tax cuts for those disposing of additional property

that has appreciated in value significantly. The same would not be true in relation to an increase in the allowance: in this case the tax cut would be capped by the scale of the raising of the allowance. This would be our preferred approach.

More specifically, we propose a tripling of the allowance for two years. This would provide a maximum tax cut, to higher rate payers disposing of additional property, of £6,552 in 2018-19, in effect a relief of a 28 per cent on any gains between the usual allowance (£11,700) and the temporary higher allowance (£35,100). This is likely to have a large dynamic effect, bringing forward disposals that would have otherwise happened in the years ahead and delaying disposals that would have taken place between policy announcement and implementation. Overall the policy is likely to act as a revenue raiser in the short-term and reduce the steady-state tax take in subsequent years.

One further consideration is the extent to which disposal of additional property is also held back by the fact that capital gains tax is forgiven at death. Ending this would likely further increase the number of disposals of additional property (or at least bring them forward), because there would no longer be a tax advantage for a family in passing additional property on to children and grandchildren.

i Policy option

Introduce reforms to capital gains tax to incentivise owners of additional properties to sell

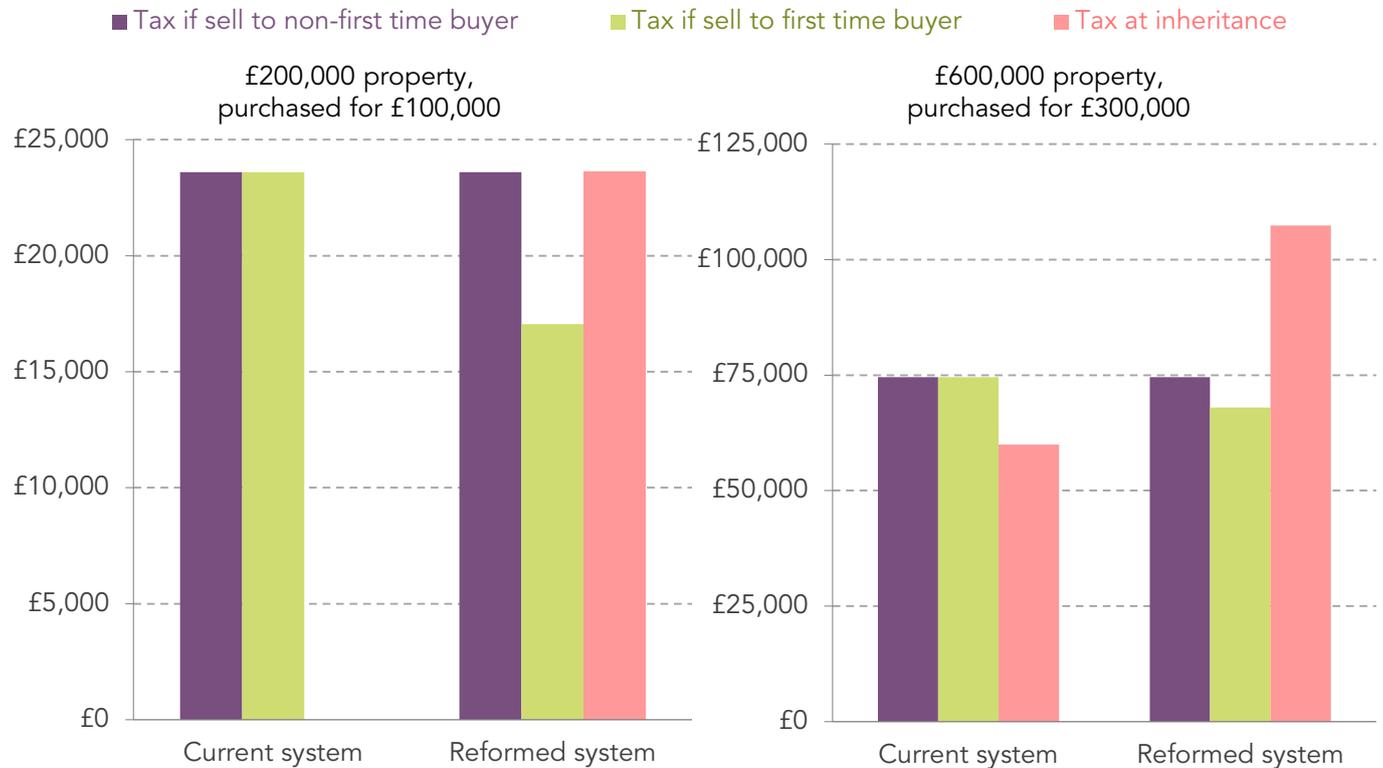
- » The capital gains allowance for the sale of an additional property to non-owners should be tripled for two years. This would provide a maximum gain (in the 2018-19 tax year) of just over £6,500.

- » Capital gains on additional properties should be taxed when passed onto anyone other than a spouse or civil partner at death.

Such a reform would mean that estates containing additional property would be subject to more tax on inheritance than is currently the case. CGT would be applied first and would reduce the value of estates accordingly, before the remainder was subject to inheritance tax in the normal way. The impact of these suggested reforms on the revenues raised from disposal or inheritance of two example additional properties is illustrated in Figure 12.

Figure 12: Reforms to capital gains tax could incentivise sale of additional property to first time buyers

Capital gains and inheritance tax paid on sale or inheritance of additional property



Notes: Chargeable gain for capital gains tax calculated as the capital gain minus stamp duty (current system), estate agents fees (at 1 per cent of value) and solicitor fees (of £2,000).

Source: RF analysis of existing capital gains and inheritance tax schedules

In the left-hand panel of Figure 12 we show the amount of tax paid on an example additional property purchased for £100,000 and sold or inherited at £200,000. In the present system this property is not liable for any tax at inheritance, since its value is below the £450,000 inheritance tax threshold. For this reason, the hypothetical owner of this property would minimise their family’s tax liability by passing on the property as an inheritance. However, in a reformed tax system the CGT levied on this property at inheritance, coupled with the reduced rate if sold to a first time buyer, means that the owner could reduce the tax paid on the disposal of the property by £7,000.

Higher value properties, such as the example £600,000 property depicted in the right-hand side of Figure 12, are liable for inheritance tax in the current system. But in this instance, for a smaller amount than would be paid if the property was disposed of before death. However, in a reformed system in which both CGT and inheritance tax are applied at inheritance, the tax liability is lower – to the tune of around £30,000 – if the property is sold on to a first time buyer.

Taken together the suite of reforms proposed in this section could have a significant effect on the UK housing market. Redirecting government efforts away from subsidies of purchases and stokes housing demand and house prices, towards the implementation of a taxation system that effectively reigns in effective demand would be no easy task. But if we wish to support the housing demand of younger, less wealthy, buyers to fulfil their home ownership ambitions we believe reforms of this nature are finally in order. And in the longer-term we need to increase housing supply if we are going to have an impact on housing costs, it is to this side of the equation that we now turn.

Section 4

Ratcheting up housing supply

While the measures outlined so far in this report would improve life in the private rented sector and level the playing field for first time buyers, building more homes year in, year out is critical if we are to bring down the market cost of housing over the longer term. Housing stock has failed to keep up with population growth over time – with a clear price effect and an increase in the number of young (and older) people who share their homes. While the house building industry points to planning and land supply as key constraints, it's clear that the state needs to take a more active role as a builder if its ambitious house building targets are going to be met.

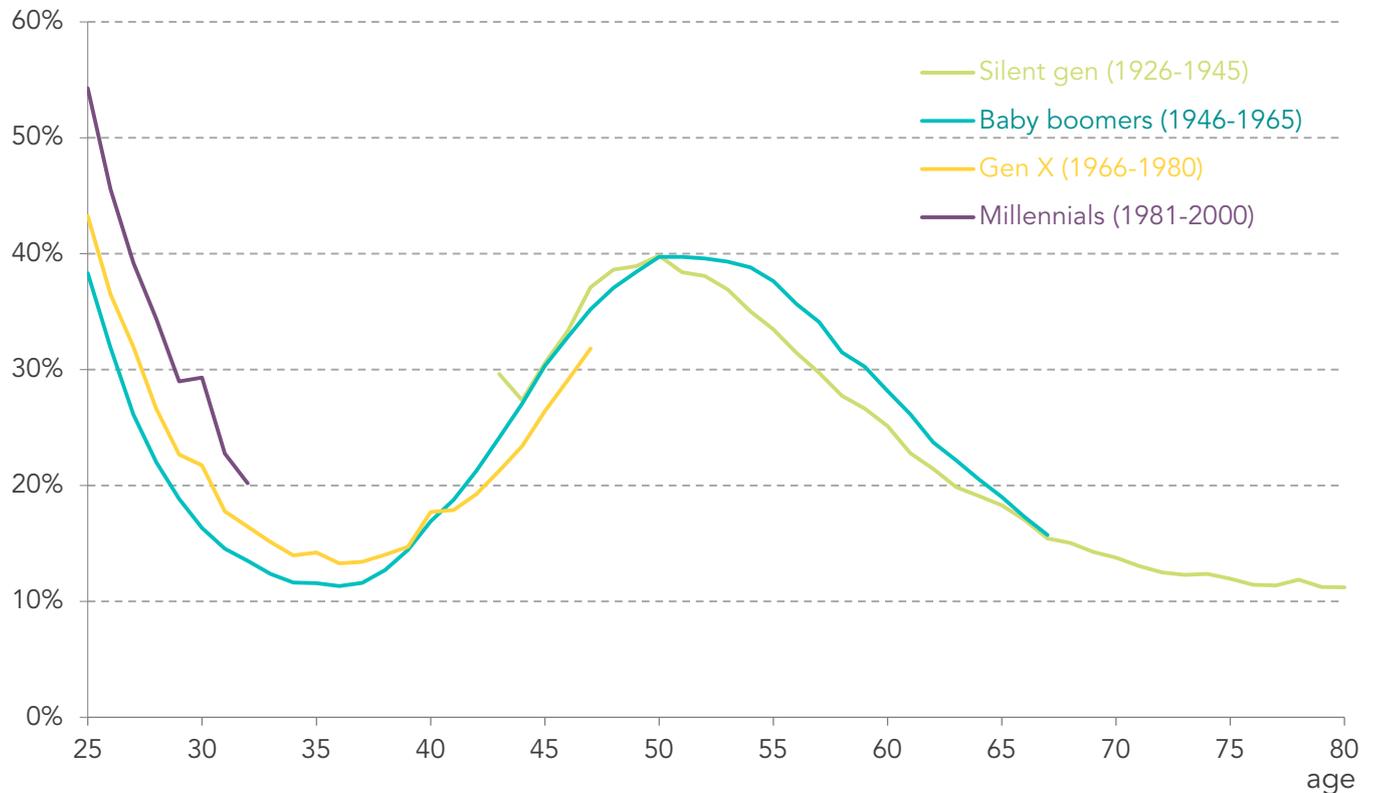
Low levels of house building have implications for all – but especially the young

While some accounts have minimised the role that supply has played in exacerbating the housing challenges of young people,³¹ there is clear evidence that house building has not kept up with demand in the UK for many years – with negative consequences for younger generations especially. Given that a household can only form if a housing unit can be found, it is a truism to assert that housing stock has kept up with household formation. To ascertain the extent to which supply has failed to match demand, it is far more revealing to look at the experience of benefit units (defined as single adults or couples and any dependent children they may have) as we do in Figure 13.

31 See for example I Mulheirn, *Fixing our broken housing crystal ball*, January 2018

Figure 13: Today's young people are much more likely to share their homes than previous generations

Proportion of individuals living in multiple benefit unit households: UK



Source: RF analysis of ONS, Labour Force Survey, 1984-2017

In this chart we show the proportion of individuals from each generation sharing with other benefit units at each age. As this makes clear, young people today are significantly more likely to be sharing in this way than were their predecessors. At the age of 30, 29 per cent of millennials live in multiple benefit unit households, either renting with adults other than a partner or living in the parental home. In contrast, just 16 per cent of baby boomers shared their homes at the same age. Of course, the other side of this coin involves parents continuing to house their children in adulthood. As a result, a higher proportion of baby boomers are living in a multiple benefit unit home in their 50s and 60s than was the case for the silent generation.

Of course, there could be benign explanations for this rise in sharing. Far greater numbers of young people stay on into higher education, for example, often delaying the point at which they leave the parental home. Moreover, we cannot tell how much of this behaviour is voluntary: it could be that younger people have a higher preference for sharing today than they did in the past.

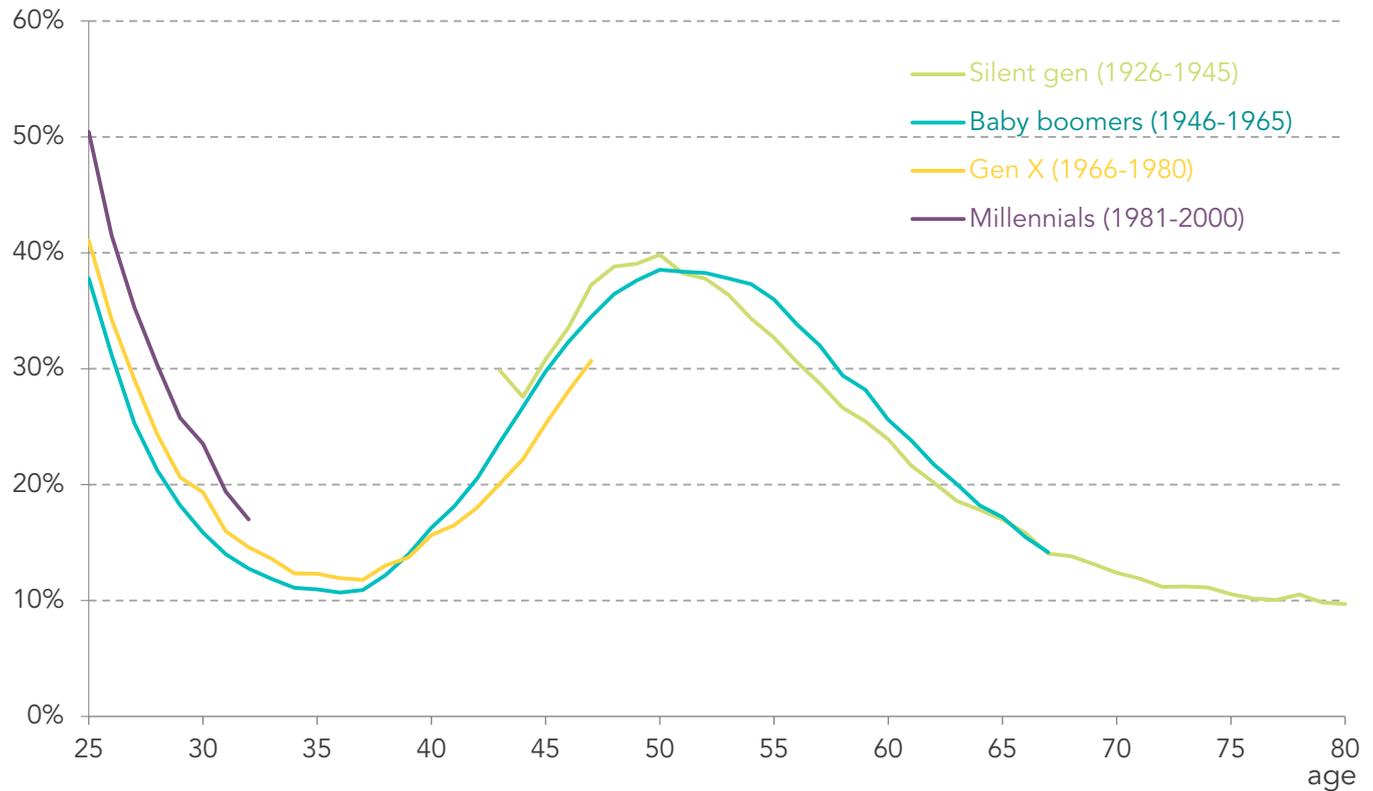
One thing we *can* test is the extent to which a more migrant-heavy young population could be behind this picture, given that there is evidence that the non-UK born have a greater propensity to share.³² To do so, we repeat our analysis for the UK-born

³² DWilletts, *The pinch: how the baby boomers took their children's future - and why they should give it back*, Atlantic Books, 2010

population only in Figure 14. While excluding migrants does moderate our findings, we still observe a higher level of millennials living in multiple benefit unit households at age 30 compared to baby boomers (23 per cent and 16 per cent respectively).

Figure 14: Sharing remains more common among the young today even when focusing on just the UK-born population

Proportion of individuals living in multiple benefit unit households, UK-born only (two-year rolling averages): UK



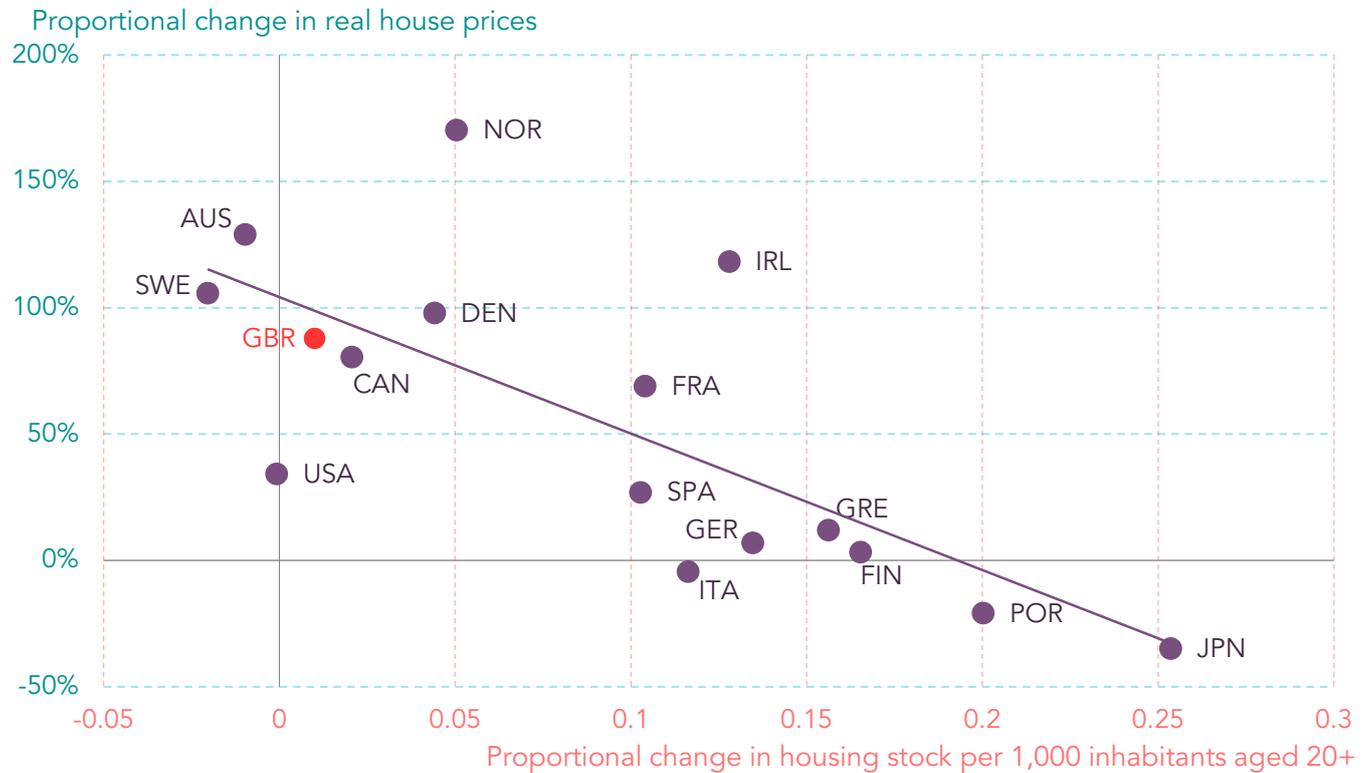
Source: RF analysis of ONS, Labour Force Survey, 1984-2017

There are other indicators that Britain has underperformed when it comes to housing supply. We have shown in other work for the Intergenerational Commission that the UK is a poor performer when it comes to increasing our housing stock-to-population ratio, with almost no change recorded between 1990 and 2015.³³ Figure 15 goes one step further, setting out changes over the past 25 years in terms of per capita housing stocks and house prices for a range of advanced economies. Importantly, the chart also shows a clear correlation across countries between pressure on stock and house price changes.

³³ F Rahman and D Tomlinson, *Cross countries: international comparisons of intergenerational trends*, Resolution Foundation, February 2018

Figure 15: Cross-national analysis suggests that the mismatch between population and housing stock is linked to price

Change in housing stock and change in house prices, 1990-2015



Source: OECD, Real house prices and Questionnaire on Affordable and Social Housing; EMF, Hypostat 2017; UN, Population Prospects

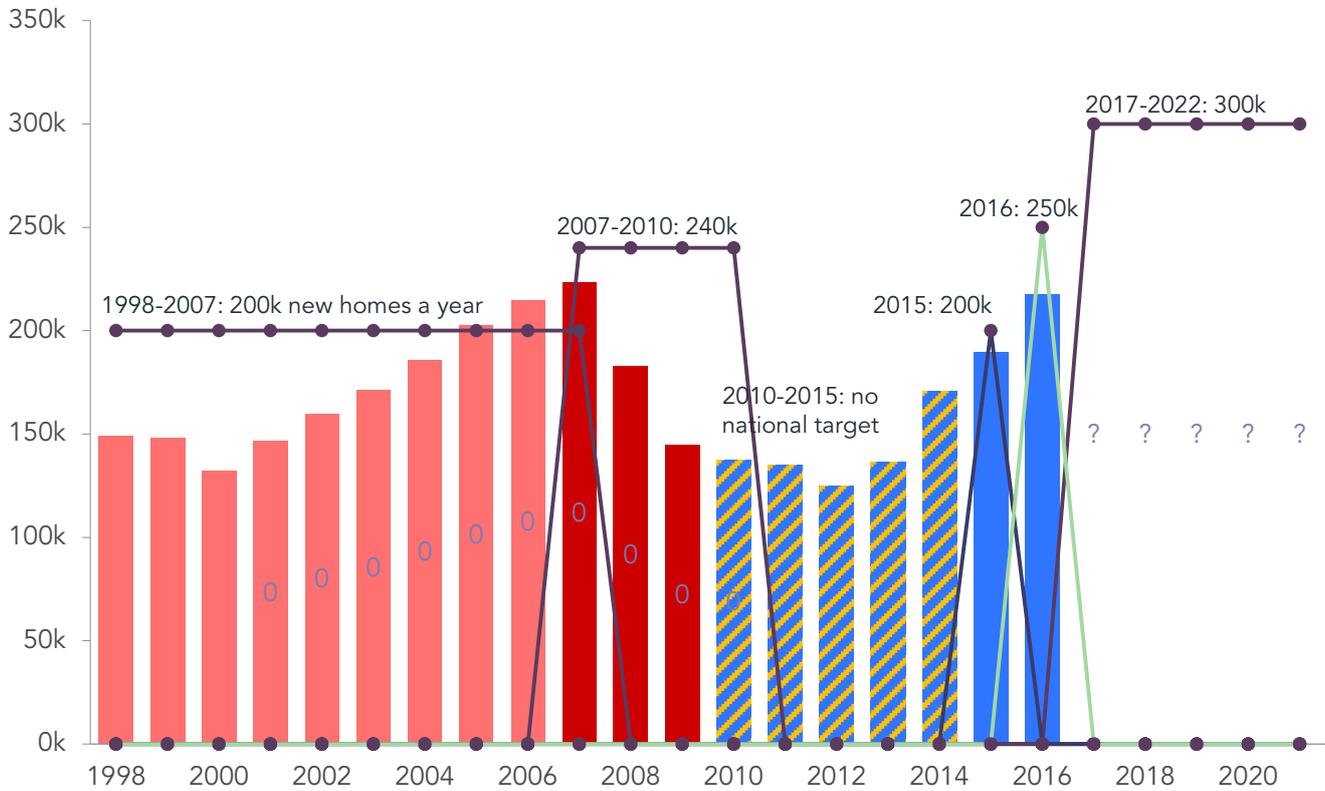
Housing supply and its relationship to population is clearly only one part of the picture. One outlier, Norway, points quite clearly to the big role that sharply rising incomes can play in driving up house prices for example. But this cross-national picture also suggests that credit (which is a hugely important driver of house price growth) is not the only story given that low and falling interest rates have been a global phenomenon throughout the period concerned.

House building targets are easy to set but harder to hit

Given what we have noted so far, building homes at a faster rate than the adult population is growing is essential if supply and demand are to be rebalanced and a new higher-volume, lower-price equilibrium is to be found. The government’s (English) target of getting 300,000 new homes built a year is significantly above the projected rate of population change, and is a good place to start. Figure 16 puts the scale of this ambition into context however, and reminds us that targets are not the same as outcomes. Ratcheting up supply to such levels clearly requires very different behaviour to that of the past.

Figure 16: House building targets have been missed in every year but one since 1998

Net additional housing supply and housing targets, 1998-2021: England



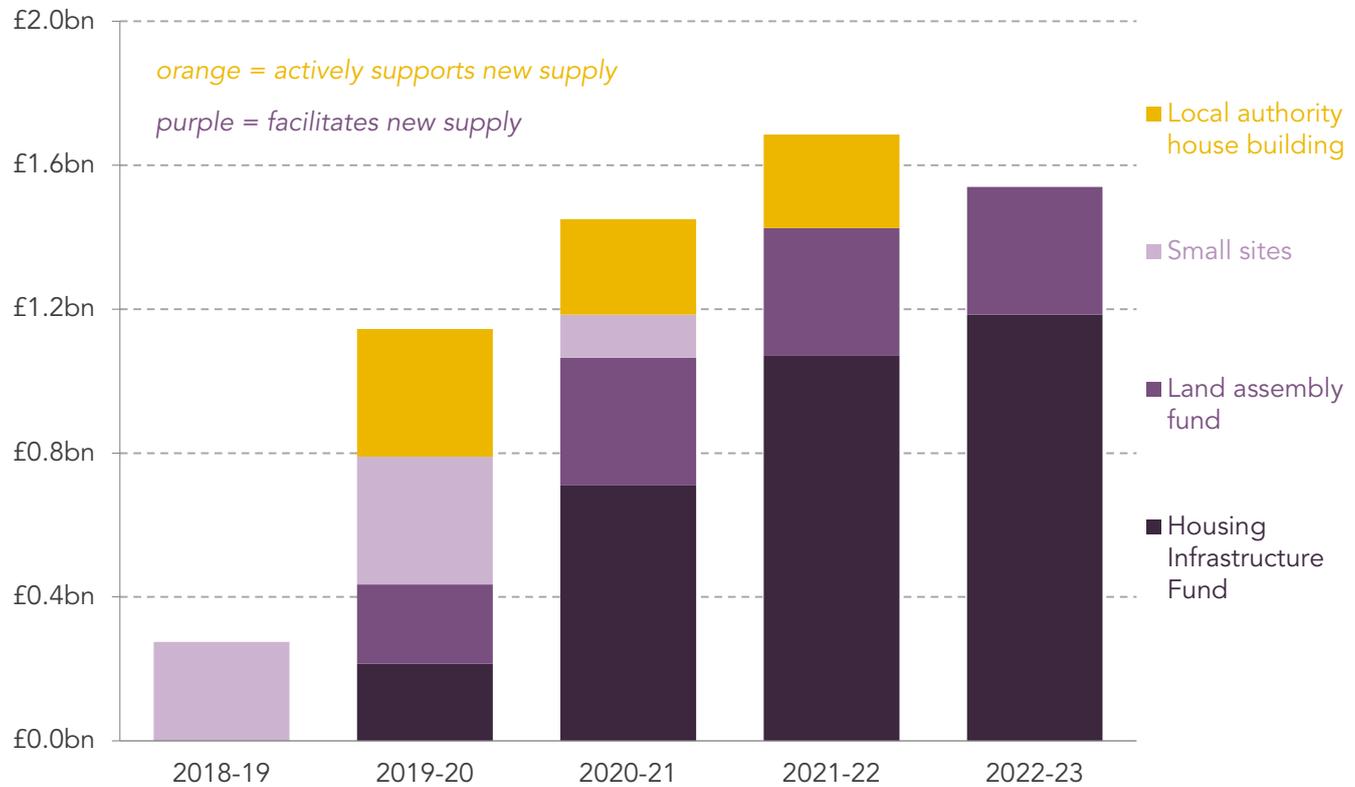
Source: RF analysis of MHCLG additional stock data; targets derived from various sources

So what could make the difference? The government set out a plan of action in its housing white paper last year.³⁴ First, it said it would get tough with councils – insisting they produce a local plan or lose their planning powers for example, and requiring them to use a prescribed (and in many eyes, not very sensible) formula when assessing local need. Second, it said it would invest to facilitate the private sector to deliver more homes – through supporting infrastructure, land assembly and other such interventions. The government subsequently put money where its mouth was in the Budget in November 2017, as Figure 17 illustrates.

34 MHCLG, *Fixing the broken housing market*, February 2017

Figure 17: New money is being released to kick start and facilitate house building

New funding announced to increase housing supply, Budget November 2017



Source: RF analysis of HMT, Autumn Budget 2017, Table 2.1

Planning capacity is just as important as the rules

Developers frequently point to the planning system as the key constraint on their efforts to build more homes. At a recent British Property Federation conference for example, 50 per cent of 115 leading industry figures polled on the question “What do you think is the single most significant barrier to the delivery of 300,000 homes a year?” answered “planning”.³⁵ Yet there have been a substantial number of changes to planning rules and powers in recent years, mainly with the intent of making the system more nimble and efficient. And there is evidence that these changes are taking effect: while 83 per cent of planning applications were granted in 2006-07 and 2007-08, today that figure stands at 88 per cent.³⁶

In fact, there may be a case for arguing that planning liberalisation has gone a step too far. The government has extended permitted development rights in recent years, allowing, for example, storage or distribution buildings to be converted to residential stock without full planning scrutiny.³⁷ While this has had a welcome effect on the number of new homes – as Figure 18 shows, conversions and change of use constituted

35 British Property Federation annual conference, February 2018. Cited with permission.

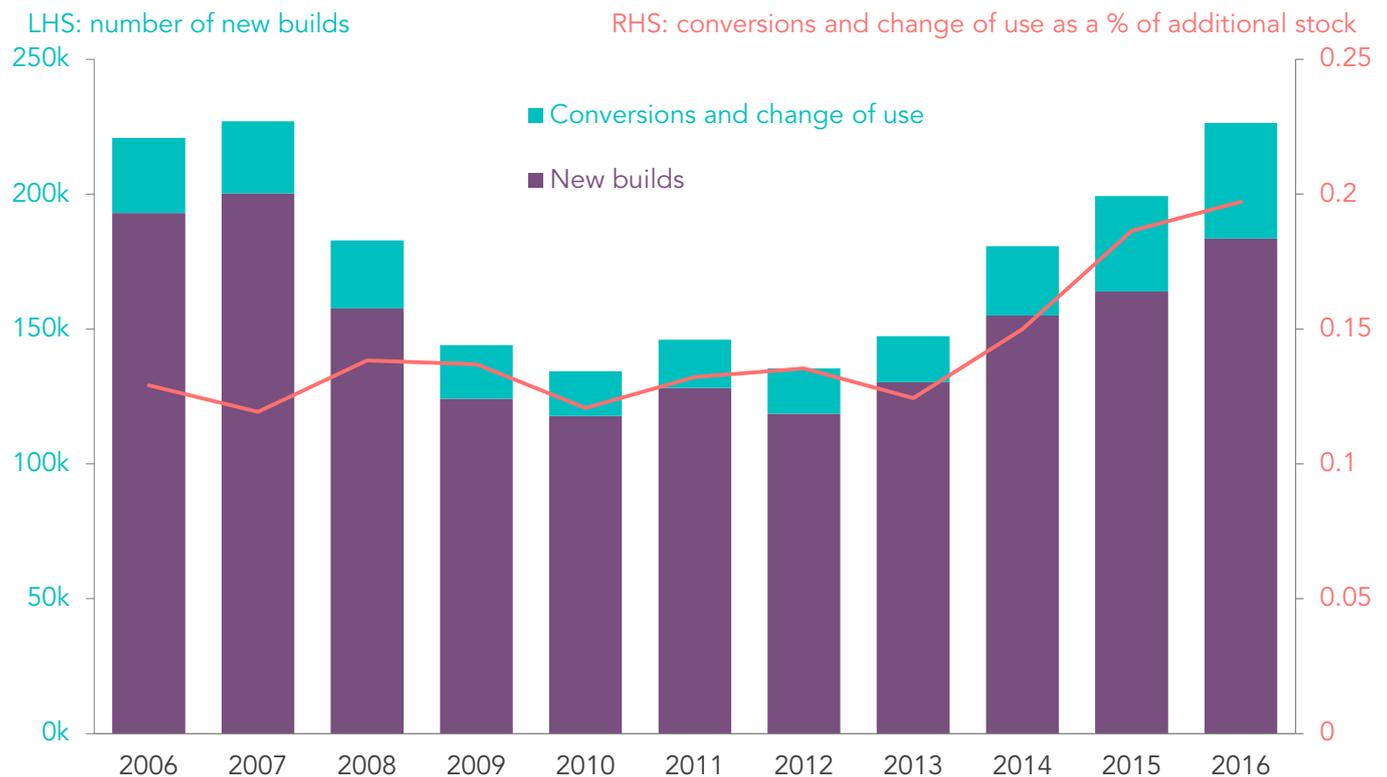
36 See MCHLG, Historical Live Table P120 July –September 2017, for further details

37 See Town and Country Planning (General Permitted Development) (England) Order 2015 for more information

20 per cent of new stock in 2016/17 – it does raise some questions about quality. For example, homes delivered under permitted development rights do not have to abide by the same space standards as builds with full planning permission.³⁸

Figure 18: The number and proportion of new homes resulting from conversions and change of use is on the rise

Additional stock by type of build: England



Notes: Date refers to main year in fiscal year. Total net additional stock includes 'other gains' as well as adjustments for the census and demolitions

Source: RF analysis of MHCLG live table 120, November 2017

Counterintuitive though it may seem, one answer to getting more houses built could be more, not fewer, planning decisions – especially where consistency is provided, so that elected politicians can have confidence in them and substantial building programmes can be delivered in a way that commands public support. Developers at the British Property Federation annual conference pointed to a lack of capacity in planning departments, as much as restrictive rules, as a considerable hindrance to their efforts. And research backs up their perception, showing that between 2010 and 2015 planning departments lost one-third of their staff across the UK.³⁹ Rebuilding local authority planning departments is a long term undertaking. But in the meantime, a central resource of planning experts could help with the job of building 300,000 homes a year.

38 See MCHLG, Historical Live Tables July –September 2017, Table P120 for further details

39 RTPI and Arup, *Investing in Delivery: How we can respond to the pressures on local authority planning?*, 2015

i Policy option

- » Create a corps of highly skilled planners in central government who will support local authorities in areas of high housing need and that have a full five year land supply to deliver high quality developments.

Reducing the input costs for house building is key – but land is the biggest challenge

Moving to a higher volume, lower cost house building equilibrium requires more than just efficient processes and improved capacity however. It also demands our taking a detailed look at the cost of the inputs needed to build more homes. In Box 3 we explore some of the new ideas for reducing both the cost of raw materials and construction. But, helpful though such innovations might prove, it is the cost of *land* which has risen most rapidly over recent years. Indeed, the costs associated with the bricks and mortar and the labour required to build new homes have not increased significantly over this period.⁴⁰

i Box 3: Building the homes of the future

Building homes at volume is a significant challenge, but one that has motivated creative thinking in many quarters. One idea that is often advanced is modular building, where homes are largely built (or indeed 3-D printed) off-site and simply assembled in situ. A much more common building method in countries such as Germany, modular homes are quick to complete (with average build times cut by six months or more),¹ cheaper both to produce and assemble (with construction costs of around a third less than conventional builds),² and less prone to defects than the classic build.³

While some members of older generations might harbour bad memories of post-war prefabs, today's modular builds could be especially attractive to those making moves in later life. Research shows that older people particularly prize homes with that are easy to manage and maintain, and hence have a stronger preference for new builds than other age groups do.⁴ The good design and state-of-the-art materials associated with modular building mean that homes built using this method could be particularly suitable for older movers.

1 Destatis statistics on building permits issued in Germany for new builds suggest around 15-20 per cent of homes have at least a prefabricated element

2 G Robinson, *Modular Construction in UK Housing: An Overview of the Market, the Players and the Issues*, Pinsent Masons Research February 2017

3 See, for example, *Financial Times*, "Vonovia looks to prefabs to build growth", 7 March 2018

4 W Wilson, *New-build housing: construction*

defects – issues and solutions (England), House of Commons Library briefing, December 2017

5 See, for example, B Beach, *Generation Stuck: Exploring the Reality of Downsizing in Later Life*, International Longevity Centre UK, January 2016

40 J Ryan-Collins, T Lloyd and L MacFarlane, *Rethinking the economics of land and housing*, February 2017

One innovative way of both bringing more land forward for development and reducing the price is the community land auction (CLA). Under this model, local authorities put out calls to landowners asking for the reserve price at which they would be prepared to sell their land in a specific window of time (usually 18 months). If the plots are fit for local purpose and suitably priced, the council can then grant planning permission on the land and offer them for sale to developers, and keep any difference between the reserve and the price paid.⁴¹

The scheme has much to recommend it, not least that cash strapped councils do not need to purchase the land themselves but instead simply play the role of honest broker. Although it is legally permissible to hold a CLA (s154 of the *Housing and Planning Act 2016* allows local authorities to apply to the Secretary of State for ‘planning freedoms’ which would allow this), to date there has not been a single council which has trialled the model. The risks of being the first mover for an innovative scheme such as this are considerable: alienating large and important lobbies, for example, or exposing the council to judicial review. We believe it is central government’s job to help local authorities overcome these obstacles.

i Policy option

Homes England should work with five local authorities who are prepared to pilot community land auctions by 2020.

- » Given how difficult it is for landowners to establish the value of their land, agricultural landowners should be offered a standard rate per hectare.
- » Within the pilot areas, land should only be allowed to be brought forward via CLA. This would avoid landowners seeking a higher price outside the system.
- » Pilot areas should be backed by expert guidance from Homes England and receive legal support as required.

To work, the CLA system needs to be backed up by the credible threat that a local authority could issue a compulsory purchase order (CPO) if land was not brought forward in the volumes required. Under the current legislative regime however, local authorities are required to pay landowners ‘hope value’ in the event of a compulsory purchase. This compensates them not just for the worth of the land at current use, but the plausible future value it could have if planning permission were to be granted.⁴² Local authorities have to find significant amounts of money to acquire land via a CPO: in one case, Wandsworth Council was required to pay £1.6 million for a site that both sides agreed had an open market value of only £15,000.⁴³

41 See, for example, T Leunig, *In my back yard: unlocking the planning system*, Centre Forum, 2007

42 Land Compensation Act 1961 s. 5

43 *Greenweb Ltd v Wandsworth London Borough Council* [2008] EWCA Civ 910; [2008] RVR 294

i Policy option

- » Give local authorities sufficient resource to make the threat of compulsory purchase credible, or reform the requirement that they pay 'hope value' in the event of a CPO.

A vibrant Build to Rent sector requires additional support

Increasing the supply of homes of all types is important if we are to solve the intergenerational housing challenge, but there are certain types of building that it may make sense to privilege. While the reforms we propose in Section 2 would greatly improve security in the PRS, it is arguable that the best way to achieve this end – and to increase quality in the sector – is to build more homes that are specifically for market rent.

Despite a great deal of discussion about its many virtues however, the Build to Rent (BTR) sector remains small in the UK. In the first quarter of 2018, for example, there were just over 20,000 BTR completed units throughout the UK. Investors are likely wary at least in part because the sector has received mixed messages from policy makers in recent years; not least the fact that it is not exempt from the 3 percentage point surcharge on stamp duty that has been levied on those purchasing multiple properties since April 2016.

Yet with slimmer margins than build to sale in the short term, there is a case for at least some type of preferential policy treatment if government wishes to increase BTR volumes. The draft revised National Planning Policy Framework (NPPF) implicitly acknowledges this by allowing BTR developments exemptions from affordable homes requirements.⁴⁴ While there is a logic to this – the presence of affordable homes in BTR blocks could increase service charges as well as make the developments harder to sell on – the policy objective of creating mixed communities should also be kept in mind.

i Policy option

Support the development of the BTR sector by exempting institutional investors who build or buy BTR properties within five years of building from the 3 per cent surcharge on stamp duty land tax.

- » In return for this exemption, BTR providers should be expected to deliver fully on affordable homes requirements to ensure that their developments are socially mixed.

Viability cannot be allowed to unduly erode the number of affordable homes the private sector delivers

Since 1990 policy has aimed to ensure that private developers build a certain proportion of affordable homes through section 106 requirements. However, this system has both inherent and deliberate limitations. While it can deliver in buoyant times, in downturns developers both build fewer properties of all types and find affordability requirements

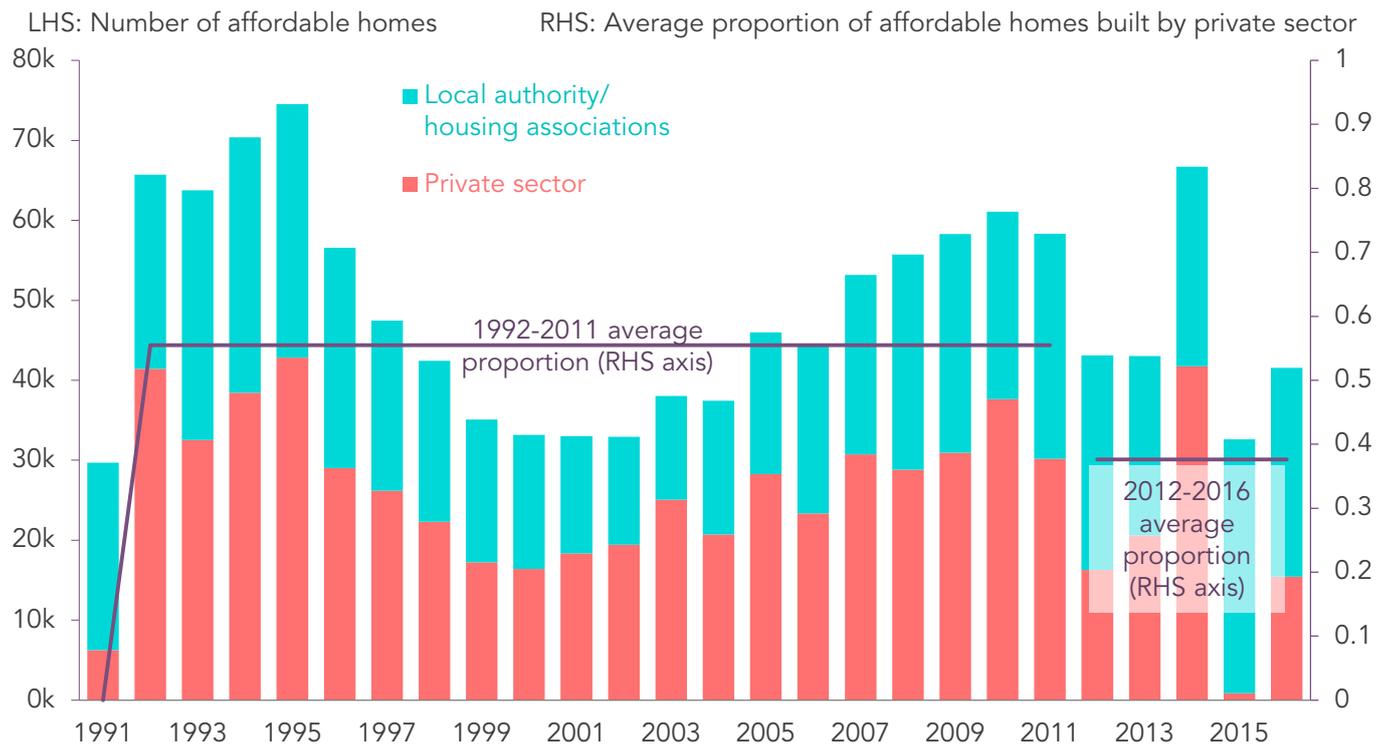
⁴⁴ MHCLG, *National Planning Policy Framework Draft text for consultation*, March 2018

more onerous. In recognition of this, since 2012 developers have been able to negotiate down the number of affordable homes they are required to build if, over time, such requirements make the development ‘unviable’.⁴⁵ Moreover, since 2010, developers can be charged the Community Infrastructure Levy (CIL) in lieu of an affordable homes requirement.

Unsurprisingly, policy changes such as these have led to a sharp decline in the share of affordable homes built by market rather than by registered providers in recent years. Figure 19 shows that private developers built on average 55 per cent of new affordable supply each year between 1991 and 2011; since 2012 however, this figure has dropped to 38 per cent. In view of this, it is disappointing to see the revised NPPF set the minimum affordable homes requirement for private developers at 10 per cent *and* keep the viability process in place.

Figure 19: The proportion of affordable homes built by the private sector has fallen in recent years

Affordable homes by type of builder, 1991-2016: England



Source: RF analysis of MHCLG, live tables 104 and 1000

45 National Planning Policy Framework 2014, para 173

i Policy option

Reform the viability process to ensure that builders deliver on their upfront affordable homes commitments, except in exceptional circumstances.

- » Reset the norm that viability processes will only be able to reopen affordable housing commitments in circumstances of significant market shifts.
- » Where developers have negotiated down the number of affordable homes during the building phase on viability grounds, the financial outcome of that

development should be examined at the end of the process and the equivalent of any affordable homes reduction clawed back where it is shown to have been unwarranted.

- » Builders who are deemed to have unreasonably reduced their affordable homes contribution on the grounds of viability should also be subject to a penalty to ensure developers do not use this mechanism simply to avoid integrating affordable homes within the development.

Even with such changes, will the private sector deliver more than it currently does?

While the changes we call for in this chapter would do much to incentivise the private sector to move to a higher volume, lower cost model of housing supply, it is questionable whether private developers will deliver the number of properties – and especially affordable homes – we desire. Historically there is no precedent for private developers to deliver anything close to 300,000 homes a year in England. In fact, since 1946 there have only been two years when the number of new dwellings built by the private sector surpassed the 200,000 mark (1964 when 200,600 were built and 1968 when 203,300 units were completed).

There are, of course, good reasons why this might be the case. In his recent letter as the Independent Reviewer of Build Out, Oliver Letwin documented how developers will not build new homes more quickly than the market can absorb because this risks house prices falling.⁴⁶ For private developers who owe a duty to their shareholders, this is an entirely understandable approach. That said, analysis of the country’s largest house-builders’ accounts show that the profit made on each plot more than doubled between 2012 and 2017, undermining claims from the industry that their margins remain excessively fine.⁴⁷

The state needs to get back into the house building business

Central government has shown some signs of being interested in directly commissioning building in recent years and, while there are a range of constraints that currently inhibit councils from building, the proliferation of local authority housing companies and the ambition of many housing associations shows an appetite for construction still exists. So what would help the state to build at scale once again?

Central government can borrow at record low interest rates for housing, but the government’s appetite to do so appears to be limited. In part this is likely to reflect ongoing

⁴⁶ House of Commons Library, *Letter from Sir Oliver Letwin to Philip Hammond MP and Sajid Javid MP regarding the gap between planning permissions granted and housing completions*, dated 09/03/2018

⁴⁷ See N Hudson’s analysis of Persimmon and Taylor Wimpey annual reports at https://twitter.com/resi_analyst?ref_src=twsrc%5Egoogle%7Ctwcamp%5Eserp%7Ctwgr%5Eauthor

fiscal constraints. However, one way around this would be to change our accounting rules: we have argued before that the Chancellor could separate out borrowing for housing from the rest of capital spending.⁴⁸ Alternatively, local authorities could be given more ability to raise funds for housing. For example, the new metro mayors could be allowed to borrow more as part of their city deals with major housing elements.

i Policy option

- » Give mayors the right to request greater flexibility to borrow for housing as part of city deals.

More radically, ahead of any wholesale property tax reform, local authorities could be given other sources of finance. The social care precept on council tax has been a poor idea, largely because the highest social care needs are often found in the lowest housing wealth areas. If better policies were put in place to tackle the social care funding gap, the precept could be repurposed. A ‘house building precept’ designed to raise funds for local homes would not suffer from the same contradiction given that those areas with the highest housing wealth and council tax base are also those with the highest demand for new homes.

i Policy option

Allow local authorities to raise additional money to build new homes

- » Ahead of wider reforms to council tax but with the social care funding gap plugged, repurpose the social

care precept into a ‘building precept’ – giving local authorities up to £1.7 billion of additional funds for building new homes.

The return of state-backed house building would provide the private sector with a credible competitor once again, improving performance all around. Couple this with improved planning capacity, cheaper inputs and reforms to ensure more of the types of homes we need are being built, and the agenda set out in this section could bring the government’s target of 300,000 new homes a year into view – as opposed to being an ever-distant dream. Without new building of these levels, younger generations will continue to be ill-served when it comes to housing.

⁴⁸ T Bell, [Strictly Come Building: How housing can make a star turn in the upcoming Budget](#), Resolution Foundation, November 2017

Section 5

Conclusion

In previous research for the Intergenerational Commission we showed that the housing crisis has been brewing for decades with generation-on-generation increases in the proportion of income we spend on housing in the UK. But today's young people have a particularly raw deal, getting less for their money than previous generations when it comes to security and quality of life. Small surprise, then, that housing is the number one concern that people raise when asked about the living standards prospects of young adults today.

Politicians have shied away from wholesale housing reform for many years, at least in part because short term political pain would be only for long term gains. But as more young people than ever before turn out to vote, and their parents and grandparents are increasingly exercised on their account, the political price of inaction is increasingly high.

The interventions we outline in this report aim to improve the housing lot of young people in the here and now, but also address many of the underlying structural determinants of the predicaments so many of them face today.

In the short term if we fail to get to grips with reform of the PRS we expose a rising numbers of children to insecurity and often poor quality accommodation. In the medium term by not rebalancing effective demand we would inhibit the ability of families to achieve their home owning dream. And if we fail to build more homes, in the long run we will see ever greater price pressures with significant living standards effects. And there are risks not just for families but for the state too. We estimate that the pensioner housing benefit bill more than double from £6 billion today to as much as £16 billion by 2060 if we fail to tackle the housing crisis head on.

The agenda for action that we set out in this report is comprehensive in scope and bold in its ambitions. We recognise that there are legitimate interests that need to be balanced across the board – between landlords and tenants, for example, multiple property owners and first time buyers or land owners and the state – but we think it is time to put those who have been ill-served by historic housing policy front and centre stage.

Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

undertaking research and economic analysis to understand the challenges facing people on a low to middle income;

developing practical and effective policy proposals; and

engaging with policy makers and stakeholders to influence decision-making and bring about change.

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