

# 2017 UK HOUSING REVIEW

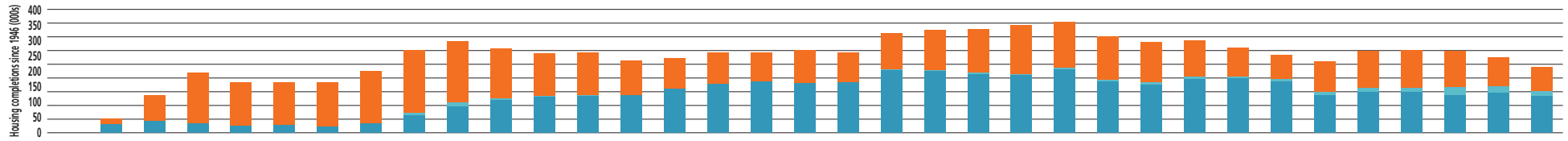
Briefing Paper

Steve Wilcox, John Perry,  
Mark Stephens and  
Peter Williams



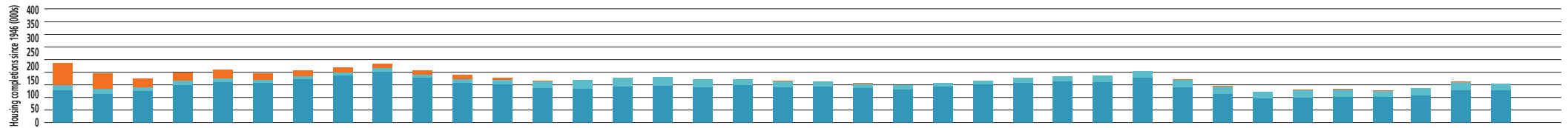
25 YEARS  
1993-2017

# Roll-call of post-war English housing ministers



1949 – Bevan visits new homes	1953 – Peak council house building	1957 – Private rents decontrolled	1963 – Home property taxes end	1968 – 350,000 homes built	1973 – Private tenants get HB	1976 – IMF austerity measures
1945	1950	1955	1960	1965	1970	1975

Aneurin Bevan  
Harold Macmillan  
Duncan Sandys  
Henry Brooke  
Charles Hill  
Keith Joseph  
Richard Crossman  
Anthony Greenwood  
Robert Mellish  
Peter Walker  
Julian Amery  
Paul Channon  
Reginald Freeson



1980 - Right to buy starts	1989 – New HA finance regime	1991 – 75,000 repossessions	1995 – Buy to Let starts	2003 - Lowest social housing built	2008 – 2.5m right to buy sales	Modest recovery in housebuilding	Hung parliament
1980	1985	1990	1995	2000	2005	2010	2015

John Stanley  
Ian Gow  
John Patten  
William Waldegrave  
Earl of Caithness  
Michael Howard  
Michael Spicer  
George Young  
Viscount Ullswater  
David Curry  
Hilary Armstrong  
Nick Raynsford  
Lord Falconer  
Lord Rooker  
Keith Hill  
Yvette Cooper  
Caroline Flint  
Margaret Beckett  
John Healey  
Grant Shapps  
Mark Prisk  
Kris Hopkins\*  
Brandon Lewis  
Gavin Barwell  
Alok Sharma

KEY: Names in light blue/light red were not members of the cabinet (\*not a Minister of State)

GRAPH KEY: Local authorities (orange), Housing associations (light blue), Private sector (dark blue)

Source: Authors' investigations with assistance from the two parliamentary libraries.

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## **The Chartered Institute of Housing**

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*UK Housing Review Briefing Paper 2017*

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## Introduction

During 2017 the *UK Housing Review* is celebrating 25 years of publication. The first edition (then called the *Housing Finance Review*) first appeared in 1993. This mid-year *Briefing* is the eighth in a series, complementing the main *Review* now published annually in the early Spring. This edition of the *Briefing* has been held back to allow it to reflect developments since June's general election.

Last year's *Briefing* went to press just before the referendum on Britain's membership of the EU, whose outcome is now seen to have major – if still unclear – implications for the economy, for migration and for the housing market. In the month in which the 2017 *Review* was published (March), there was a new Budget and also devolved government elections in Scotland, Wales and Northern Ireland. The last resulted in frustration, however, as the Northern Ireland Assembly was suspended for the fourth time since the 1998 Peace Agreement.

Then, in June, an unexpected general election result was followed only a week later by the horrendous fire that consumed the Grenfell Tower in Kensington & Chelsea. Both events carry implications for housing policy that are discussed in this *Briefing*, albeit that their full impacts will take time to emerge.

Drawing on the latest statistics, the *Briefing* assesses the implications of new policy and market developments in thirteen key topic areas, together with dedicated pages on Scotland, Wales and Northern Ireland. Our final page provides a list of updated tables now available on the *Review's* website ([www.ukhousingreview.org.uk](http://www.ukhousingreview.org.uk)).

## Housing demand and supply

New housing supply continues to fall behind new household growth across Great Britain. Projecting future housing need is fraught with difficulty, even more so now that the Brexit vote seems to be having an early impact on migration levels. All of the UK administrations have housing supply targets after elections this year, but none will be easily achieved. In England, annual supply remains some 30,000 short of the 'break even' point with household growth. The *Briefing* argues that while supply is of critical importance, so is the rather more neglected issue of affordability, in both the private and the social housing sectors.

## Homeownership, affordability and mortgage access

The Westminster government has shifted slightly away from promoting homeownership as its main housing priority, but our reassessment of total housing investment up to 2020/21 still shows support for the private market totalling some £32 billion, as against affordable housing investment of £8 billion.

The *Briefing* looks at the other policy shifts towards homeownership and away from renting, but does not conclude that they yet show signs of any decisive alteration in tenure trends.

While government assistance schemes for homeownership undoubtedly help, the barriers to entering the market – though different from a decade ago – are still considerable.

## Affordable rented housing

Scotland, Wales and Northern Ireland continue to put considerable emphasis in policies and in their budgets on the delivery of affordable housing, with Scotland in particular investing and delivering proportionately many more homes than England. The Scottish and Welsh elections reinforced affordable housing targets; affordable housing provision in Northern Ireland though has been set back by the political crisis and budget changes.

In England, the government has given a modest boost to affordable housing investment. While output has increased, it is still a long way short of what is required to meet needs.

## Homelessness

Following the early successes of a new and wider homelessness prevention policy in Wales, parallel provisions have now been legislated for in England and should start to take effect from 2018 onwards. While these changes are positive, many concerns remain about homelessness pressures, especially in London, and these are reinforced by analysis suggesting there will be substantial increases in 'core' homelessness in years to come.

## Welfare reform

One of the more immediate concerns about welfare reform policies is about the way the new lower 'benefit cap' has more than trebled (to nearly 70,000) the numbers affected. These households' benefits are capped below the level of their scale-rate entitlements, with all the hardship that entails. Looking ahead there are also concerns about the impact of the local housing allowance caps due to apply to social sector tenants, and in particular the effects on younger, single people only entitled to the much lower 'shared accommodation rate'.



In March next year the *UK Housing Review 2018* will aim to provide a considered appraisal of the Westminster government's housing and welfare policy changes, including any resulting from the Autumn Budget, as well as assessments of the latest policy developments in Scotland, Wales and Northern Ireland.

Meanwhile, this edition of the *Briefing* has been compiled with the assistance of Suzanne Fitzpatrick and Beth Watts (on homelessness), Tamsin Stirling (on Wales), Justin Cartwright (on Northern Ireland) and Paul Cosgrove (on the revised tables listed on page 20).

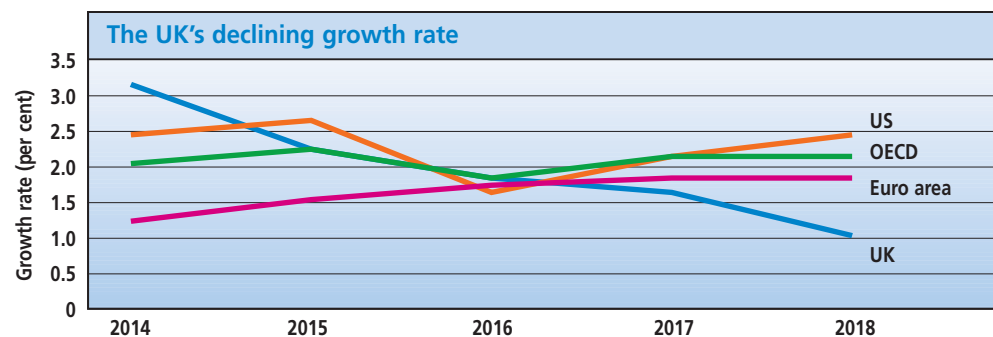
**Steve Wilcox, John Perry, Mark Stephens and Peter Williams**  
*September 2017*

## Uncertain economic prospects

The pattern of the UK's economic performance in the aftermath of the global financial crisis (GFC) is now well-established: employment growth has yet to restore earnings to pre-downturn levels.

Since the outcome of the EU referendum in June 2016, the pound has fallen, putting upward pressure on inflation, and the future is shrouded in uncertainty. As the Office for Budgetary Responsibility commented in March, '... there is no meaningful basis for predicting the precise end-point of the [Brexit] negotiations as a basis for our forecast.'<sup>1</sup> Mark Carney, governor of the Bank of England, has said that uncertainty '...weighs on the decisions of businesses and households and holds down both demand and supply.'<sup>2</sup>

The OECD also attributed the slowing of the UK economy to 'uncertainty about the Brexit negotiations.'<sup>3</sup> It charts the decline in real economic growth from 3.1 per cent in 2014 to an anticipated one per cent in 2018 – so the UK moves from outstripping the USA, OECD and euro area to lagging behind them all. The Bank of England's central forecast for the three years up to 2020 never has the growth rate reaching two per cent in any quarter until then.



Source: OECD Economic Outlook.

Whilst the government's deficit (Public Sector Net Borrowing) is expected to fall below three per cent of GDP in 2017/18, total debt (Public Sector Net Debt) will continue to rise to 88.8 per cent of GDP.<sup>4</sup> Nevertheless, the government has given some indication of being prepared to soften its 'austerity' policy of fiscal consolidation. This could take the form of either extending the target date for deficit reduction or reducing expenditure cuts via higher taxes. The policy of freezing working-age benefits at cash value for 2016-20 is likely to come under scrutiny as inflation rises, as it squeezes the real incomes of low-income households, although loosening the public sector pay cap might be a policy change more attractive to the government's supporters. The DUP may also exercise influence over the direction of policy. Any policy changes are likely to be announced in November – the month to which the Budget has now been moved.

Meanwhile monetary policy has continued to take the strain. The effect of sterling's devaluation has been to increase inflation, which the Bank of England expects to peak at three per cent in October 2017 before returning to target. The Monetary Policy Committee has so far not raised interest rates in response. In August its members voted 6-2 to maintain the bank rate at the historic low of 0.25 per cent. However, with economic forecasts generally anticipating slowing growth rates, the MPC noted unanimously that any future rate rises would 'be at a gradual pace and to a limited extent.'<sup>5</sup>

UK economic management since 2010 has therefore relied on monetary policy – both through interest rates and quantitative easing (QE) – to maintain demand in the economy. The MPC introduced the Term Funding Scheme from September 2016 to encourage banks to pass on money at low interest rates to customers, and this continues to February 2018 when it then tapers down. QE in general is designed to support asset prices, and thus inhibited the early ambitions of the coalition government to reorient the economy away from relying on rising property prices – and in particular on house price inflation.

The UK economy is also weakened by the so-called 'productivity puzzle.' This describes the slow-down in the rate of productivity growth following the GFC. Whilst this has happened across the advanced economies, it is especially acute in the UK. By 2015, the UK's productivity was 15.2 per cent below pre-downturn trend, the largest gap in the G7 and twice the average.<sup>6</sup> Additionally, the 'wage share' has been falling in advanced economies, so labour market incomes have lagged behind the diminished rate of productivity growth. The ILO and other organisations report that this has been most acute in the USA, Germany and Japan, but has also occurred in the UK.<sup>7</sup> According to provisional figures released by ONS, in May real average earnings in the UK were 7.4 percentage points lower than the February 2008 peak.<sup>8</sup>

Whilst Brexit casts an extra shadow of uncertainty over the UK's economic prospects, longer-standing structural problems in the labour market continue to depress disposable incomes and economic growth.

### References

- 1 Office for Budget Responsibility (2017) *Economic and fiscal outlook*, March, Cm 9419. London: OBR.
- 2 Quoted in *Financial Times*, 'Carney warns Brexit uncertainty is weighing on UK economy', 3 August 2017.
- 3 OECD (2017) *United Kingdom – Economic forecast summary*. Paris: OECD.
- 4 OBR (2017), *op.cit.*, Table 1.2.
- 5 Bank of England (2017) *Monetary Policy Summary*, August. London: BoE.
- 6 ONS (2017) *International comparisons of UK productivity (ICP), final estimates: 2015*. London: ONS.
- 7 ILO, IMF, OECD, World Bank (2015) *Income inequality and labour income share in G20 countries: Trends, Impacts, Causes*. Paper prepared for G20 employment and finance ministers. Geneva: ILO.
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## Public spending: An end to austerity?

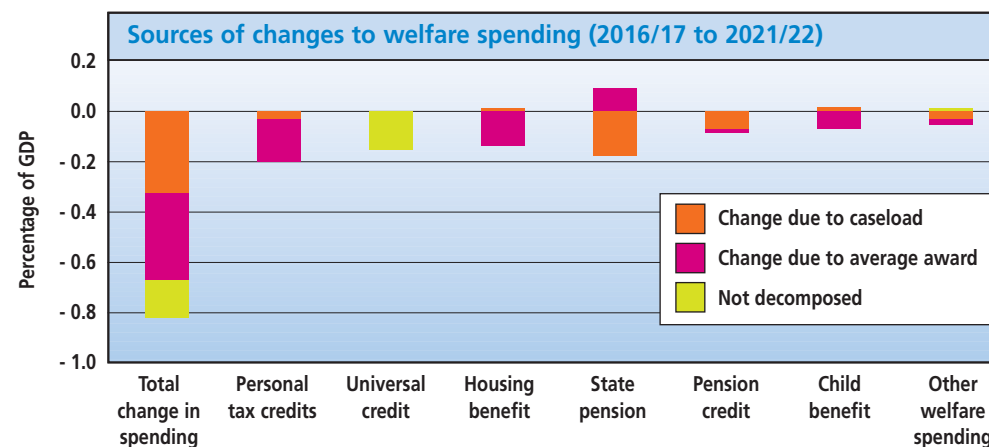
August 2017 marked the tenth anniversary of the credit crunch, when uncertainty about the veracity of US mortgage-backed securities caused the wholesale market to seize up overnight. The credit crunch morphed into the Global Financial Crisis with the failure of Lehman Brothers in October 2008. As governments borrowed to rescue banks and stave off catastrophe, a sovereign debt crisis arose in some countries as markets became reluctant to lend to heavily indebted governments. The negotiations over the formation of the 2010-15 coalition government took place against the backdrop of the Greek sovereign debt crisis, which appears to have persuaded the Liberal Democrats to join the Conservatives in prioritising deficit reduction, arguing that the UK faced a similar fate unless it brought its public finances under control.

And so the policy of 'austerity' was born. An emergency budget in June 2010 made tax and spending decisions intended to restore the government's financial health. Under the self-imposed 'fiscal mandate' the cyclical deficit was meant to disappear in 2015/16, and public sector net debt was forecast to peak at 70.3 per cent in 2013/14 and fall thereafter.<sup>1</sup> Whilst Departmental Expenditure Limits would increase in line with inflation, there would be £83 billion of cuts to Annually Managed Expenditure – which of course includes social security.

Things did not work out quite as planned, as economic growth fell below expectations and fiscal targets were missed. By the time of the 2011 Autumn Statement, some newspapers were speculating about the end of austerity. They had little reason to do so. The Autumn Statement confirmed that '...the Government plans a total consolidation of £147 billion per year by 2016-17, consisting of total reductions in spending of £116 billion and a net increase in taxes of £31 billion.'<sup>2</sup> Back in 2011/12 just over half the consolidation came in the form of spending cuts and the rest from tax rises, but the contribution from expenditure cuts was forecast to rise to almost 80 per cent in 2016-17.<sup>3</sup> So austerity was continuing and its impact was shifting towards lower-income households.

The pattern of missed fiscal targets has been repeated since 2011. The 2016 Autumn Statement once again confirmed that targets had been missed – this time due to insipid tax revenues as well as lower economic growth. Now the government intended to 'return the public finances to balance as soon as possible in the next Parliament, with an interim objective of reducing the structural deficit to less than 2% of GDP.'<sup>4</sup> Debt as a percentage of GDP, originally to have peaked at 70 per cent in 2013/14, was now forecast to peak at 90 per cent in 2017/18. The 2017 Budget also promised to 'maintain discipline on public spending'<sup>5</sup>

Following June's unexpected general election result, there was renewed speculation about austerity coming to an end. During the campaign, the Conservative Party faced the ignominy of having to retract key expenditure cuts proposed in its manifesto (means-testing winter fuel



Source: Office for Budget Responsibility, Economic and Fiscal Outlook March 2017 Cm 9419, Chart 4.8.

payments and ending the 'triple lock' on state pensions). Even then the manifesto foresaw a balanced budget 'by the middle of the next decade'. Following the election the chancellor fuelled speculation when he said that the public was 'weary' of austerity.

Looking over the post-election landscape, Carl Emmerson<sup>6</sup> of the IFS notes that on current plans the government intends to increase spending by £37 billion in real terms by 2021-22. However, this would represent a reduction in the share of public spending in the economy equivalent to £17 billion. Moreover, the £17 billion is a net figure which includes a £10 billion *increase* in investment spending, offset by a further *fall* in current spending equivalent to £27 billion. In other words, drastic cuts in services are still to come.

If the government opts to ease austerity, it is likely to be selectively targeted on core services such as health where spending has to rise simply to keep up with rising demands, and perhaps on loosening public sector wage restrictions. The planned cuts to social security benefits through mechanisms such as the four-year freeze in working-age benefits are illustrated in the chart. Unless the government finds a way to reverse or to mitigate this policy, for those on low and modest incomes austerity is far from over.

### References

- 1 HM Treasury (2010) *Budget 2010*, HC61. London: HM Treasury.
- 2 HM Treasury (2011) *Autumn Statement 2011*, Cm 8231. London: HM Treasury.
- 3 *Ibid.*
- 4 HM Treasury (2016) *Autumn Statement 2016*, Cm 9362. London: HM Treasury.
- 5 HM Treasury (2017) *Spring Budget 2017*, Cm 1025. London: HM Treasury.
- 6 Emmerson, C. (2017) *Where next for tax and spend?* London: IFS (see [www.ifs.org.uk/publications/9363](http://www.ifs.org.uk/publications/9363)).

## Post-election housing blues?

For a government already in difficulties following the failure to secure a clear majority in the June General Election, the Grenfell Tower tragedy a week later compounded their problems. Grenfell and its aftermath have huge implications for government spending: not only for the housing budget and the retreat from social housing provision, but also for the housing white paper and its priorities. Politics was refocused and though Grenfell will slowly move out of the headlines the delays in helping residents, the ongoing inquiry and huge public sympathy are likely to mean that it remains a significant influence on policy and investment decisions.

The new housing minister Alok Sharma, MP (the 37th since Aneurin Bevan, see inside front cover) was plunged into the crisis and targeted by Grenfell protesters for delays in providing permanent housing. It is clear that not only Kensington & Chelsea but many other social landlords across the UK expect government to fund replacement and other work in tower blocks now at risk. It was already striking that February's housing white paper contained no discussion of public investment and now the issue looms large. Set in the context of Brexit and continuing (if perhaps slightly reduced) austerity, this seems certain to cause considerable problems. If the extra work needed receives no or insufficient government support, costs will fall on landlords' rental incomes and will inevitably displace other investment. If the government offers support but without adding to the national pot, there would be a similar effect but at national level. Only a new, specific grant or subsidy for post-Grenfell works will ensure they are not done at the expense of other affordable housing investment.

The background is an ambitious government housing programme but with the priorities largely those set by the previous chancellor, George Osborne. The pie chart summarises the current investment picture, updating the detailed version in the *UK Housing Review 2017* (page 80). It shows the overwhelming emphasis on support for the private market, taking 79% of the total. This shifted only slightly in favour of affordable housing in Philip Hammond's Autumn Statement, despite its announcement of extra funding for new build at Affordable Rents.

So far, carrying forward the proposals in the white paper has been slow: consultations have taken place and official responses issued, but as yet there have been few concrete changes. This may be the inevitable result of current pressures, with Brexit making huge demands on the civil service, the aftermath of Grenfell being an understandable priority

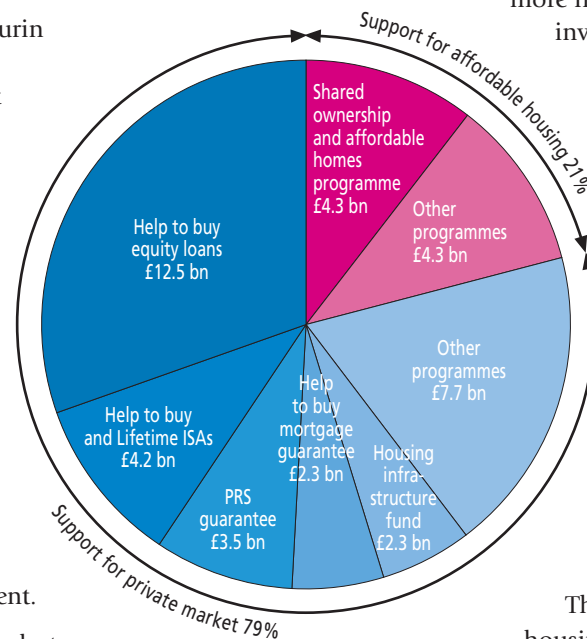
for DCLG, the HCA and local authorities, and the general election both suspending detailed policy announcements and then resulting in a hung parliament, in which the previous housing minister lost his seat.

While Gavin Barwell had begun to earn a reputation for being willing to widen the housing agenda beyond the private housing market, the new minister has not surprisingly begun by saying he will take 'an opportunity over the summer to think carefully' about his brief. However, he added that 'the start has to be building more houses'. While this again might be expected, it avoids two glaring investment priorities which have to be taken on board (along with other post-Grenfell lessons like addressing failures in communication between social landlords and tenants).

The first priority is the need for much greater investment in the existing housing stock, an issue highlighted by the Grenfell tragedy. Not only has the Decent Homes Standard not been updated for a decade, but resources for keeping homes up to the standard are being eroded and achievement of it is slipping. Social landlords are also failing to keep up with the task of raising the energy efficiency of their homes and reducing fuel poverty among tenants, made more technically challenging post-Grenfell but still vital in meeting statutory carbon emissions targets. Essentially, investment in the existing social stock has been left for landlords to finance from rents, while government has been cutting their rental income and will continue to do so for another two years.

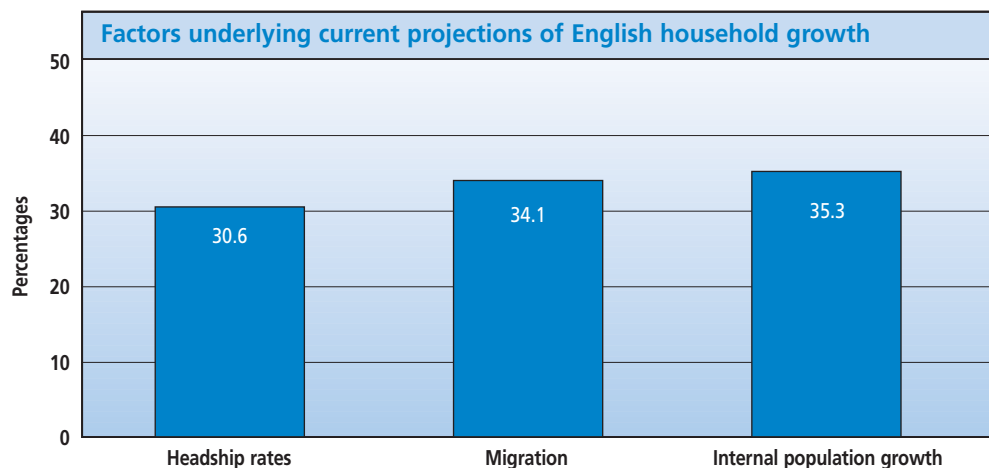
The second priority is more investment in genuinely affordable housing, which appears to continue to take second place to increasing the overall supply of housing, despite the fact that more than three million UK households now spend over a third of their income on housing costs. As the summary on page 9 shows, affordable output via government programmes in England is running at half the levels of six years ago, with social rent output only a fraction of what it was then.

Overall government housing investment has grown considerably but the chart shows that it is still seriously unbalanced. This does at least give the government the option – if it decides to take it – of making a significant increase in affordable investment by shifting resources away from private sector support, without necessarily having to increase overall commitments to housing in the coming Budget.





## Household growth under the shadow of Brexit



Source: DCLG: English 2014-based household projections.

Note: Headship rates are the average number of people in a household.

It has long been the case that net migration is the most volatile and difficult-to-forecast factor in making household projections. The Brexit vote has now further complicated the picture. The long-term outcome of the Brexit negotiations and the future regulatory arrangements on migration to and from other EU countries (the EU27) are still unknown, but the vote and the resulting uncertainty are already having an impact on migration flows.

In the last half of 2016 there was a very sharp drop in international net migration to the UK. In the year ending March 2017, migration was down by a quarter (to 246,000) compared to the year ending in March 2016 (when the rolling annual figures were virtually unchanged over the previous year). This implies that net migration fell about one-third between the quarter that ended with the Brexit vote and the quarter ending March 2017.

Not all of this can be directly related to Brexit uncertainties. Only two-thirds of the net fall in migration in the year ending March 2017 (compared to the previous year) relates to flows to/from the EU27. And only about half of the fall in net migration was work-related; over a quarter was study-related. Nonetheless concerns about the potential impact of Brexit, both on UK economic prospects and on the likely tightening of immigration rules, have clearly played a part. And now they have been reinforced by slow economic growth in the first half of 2017, and a sharp fall in the value of the pound against the euro, further affecting the attractiveness of the UK as a work destination.

The sharp fall in net EU migration is remarkable given that nothing has yet been settled, and when the indications are that any major change in the UK immigration regime may not take place for several years. However this sharp fall is actually broadly in line with the assumptions made in the 2014-based household projections. Further ahead there are inevitable questions about how much further it might decline, especially given that there are already many sectors of the economy facing recruitment problems due to lower migration.

This uncertainty is a major headache for the production of the next round of population and household projections. Both the severe economic and housing market dislocations of the last decade, and the significant but volatile contribution from net migration, make it impossible to rely on past demographic trends from steadier times. However none of this uncertainty provides any short-term basis for reducing current targets for house building in England, given the very substantial shortfall in dwellings against households (see page 8).

Another key question about the latest round of UK household projections is:<sup>1</sup> how far were household growth rates frustrated and slowed down by difficult housing market and economic conditions over the last decade? As a corollary, will growth rates resume in the event of any economic and housing market recovery? – albeit that recovery now looks some way off given the impact of Brexit uncertainties (see page 4).

There has been a long-term trend towards smaller households and thus larger household numbers relative to the size of the population. This reflects a number of factors including a rising proportion of older households, greater prosperity and rising levels of divorce and separation. However, during the downturn the fall in 'headship rates' (the average number of people in a household) drastically slowed: they are now higher than was anticipated in earlier rounds of projections. While the consensus is that headship rates will continue to decline, there is considerable uncertainty about how quickly this will happen. In Wales, for example, the (latest) 2014 household projections show the headship rate gradually falling from 2.29 in 2014 to 2.23 in 2024 and 2.19 in 2034.<sup>2</sup> In contrast, in the last set of household projections based on pre-credit-crunch trends, the headship rate was projected to fall from 2.20 in 2008, to 2.10 in 2023 and 2.02 by 2033.

Even if housebuilding rates still need to rise in the short term, the reality is that in the medium and longer term two important drivers of household growth – migration and household size – lie uncertainly beneath the shadow of Brexit.

### References

1 See Commentary Chapter 2 in the 2017 edition of the *UK Housing Review* for a further discussion of household projections across the UK.

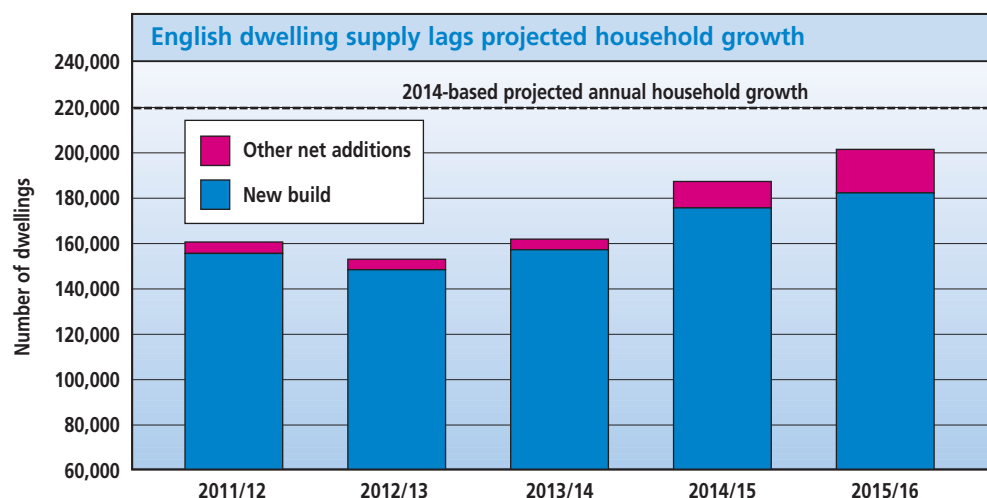
2 Welsh Government (2017) *Local Authority Household Projections (2014-based)*. Cardiff: Welsh Government.

## It's supply, supply and supply – or is it?

Successive housing ministers and indeed prime ministers have rooted England's housing problems in the failure of housing supply, rightly arguing that governments have regularly fallen short in building enough homes to keep pace with growing household numbers. Taking vacants and second homes into account, there is a crude shortage of around 1.25 million homes. At the simplest level we can all agree that supply is crucial but the reality is far more complex, as former minister Nick Raynsford argues cogently in *Substance not Spin*.<sup>1</sup>

As we show in the chart, supply is rising but still lags behind overall demand based on projected household growth. The government and most commentators now use the annual data on net additions to measure supply, i.e. new completions minus demolitions plus conversions and changes of use. They appear more reliable than the quarterly housebuilding statistics, which consistently underestimate output, triggering a DCLG review.<sup>2</sup>

Even if we can agree on the numbers being achieved, we have to ask 'what is being supplied and where?' Across England the supply/demand imbalance varies greatly. In some areas output is close to what is needed and the big issue is improving the quality of the existing stock. Then there is the question of what is being built – it is not only a debate about social versus private output but also where the new private supply is concentrated. Evidence suggests it is increasingly focussed on the more affluent end of the market. And some of this may be driven in part by the purchasing power of overseas investors and schemes such as Help to Buy.



Source: DCLG Annual net additions to supply statistics. These reveal much higher annual new build figures than shown in the longstanding quarterly statistics. Other net additions are from conversions, change of use and other additions; net of demolitions.

We therefore cannot assume more supply is the sole answer to 'the problem'. Indeed as the evidence to the Redfern Review from Oxford Economics reminds us, it is unlikely to bring house prices down except in the very long term and with sustained high output of new homes relative to household growth.<sup>3</sup> Even boosting (UK) housing supply to 310,000 homes per annum in their model only brings a five per cent fall in the baseline forecast of house prices. Oxford Economics says this has 'important implications for a policy debate that has focused heavily on supply as both the cause of the problem of high house prices and its solution.' Incomes and the cost and supply of credit are also key factors, and here the constraints being imposed by mortgage regulation and a range of macro-prudential controls from the Bank of England and elsewhere come into the equation.

Then of course there is the question of taxation, one revisited annually in the *Review*. Owners still experienced net tax benefits of the order of £32 billion in 2015/16 (see page 16). Stamp duty has been or will be reformed across the UK and to a degree is now much more progressive. As it stands the absence of capital gains tax on the primary residence, alongside the absence of any tax on the imputed rental return on an owner-occupied property, are two obvious areas where policy might shift. The council tax regime is another example of a regressive tax which remains unreformed despite calls for a proper property tax. And of course there is an unresolved debate on land-value tax. Recently the government reduced the rate of capital gains tax (CGT) on all asset sales excluding residential property, in effect penalising residential investment. In 2015 it also imposed a new CGT on the sale of UK residential property so it is paid by all non-residents on all values of property (but only on gains since April that year). What both indicate is a hardening of the tax agenda, and the market reaction and softening in house prices are in part a result of the tougher tax regime.

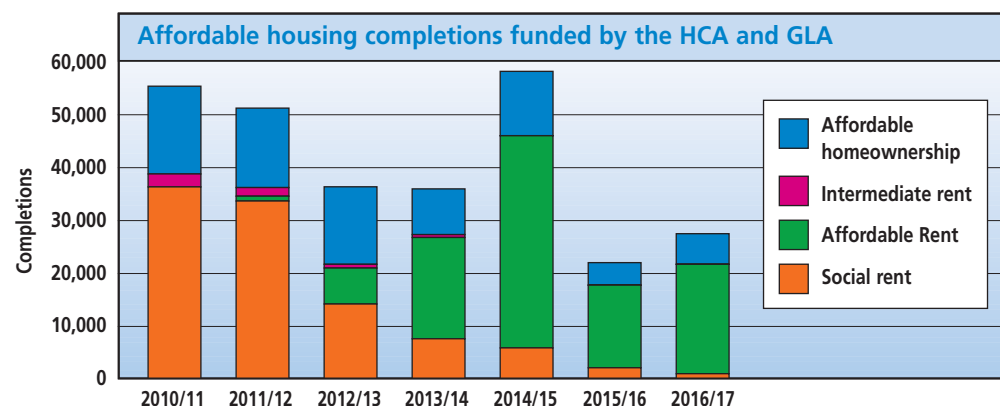
As political pressure to fix a 'broken' housing market increases and as the limits of a supply-only agenda are exposed, so there may be more appetite to consider tax and subsidy reform. Clearly it carries huge political risks. With other issues dominating and no overall majority it seems unlikely that the Whitehall government will go there, although in the devolved administrations there is more appetite for reform. In the next decade, might we see the mantra of 'supply, supply and supply' replaced by a policy that is both more comprehensive and more sophisticated, and hence more effective?

### References

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## England's affordable housing supply: what does 'affordable' mean?

Shifting policies and definitions are making it difficult to use the term 'affordable housing' in a way which has a consistent meaning. While there used to be consensus that any housing at significantly below market price was 'affordable', rising house prices and rents mean that a yardstick based on them (such as Affordable Rents being no more than 80 per cent of market levels) may no longer deliver prices that lower-income households can afford. Nor is there any longer the expectation that the difference will be covered by housing benefit. Some 'affordable' products, such as Starter Homes, are in any case aimed at somewhat higher income groups.



Source: DCLG Live Table 1012.

This means that the government's affordable housing supply statistics for England have to be treated with caution (see chart). The latest totals show that grant-funded new supply is running at about half the level it was six years ago, and that whereas two-thirds of the total then was let at social rents, that has now fallen to only four per cent. Three-quarters is now at Affordable Rents (AR). New starts in 2016/17 (not shown) were more encouraging, at levels higher than for the last two years.

A fuller picture needs to include homes produced without grant. Pending the availability of official figures (DCLG live table 1000), the NHF's useful survey of main housing associations suggests that total affordable supply delivered by associations (including shared ownership) in 2016/17 was a higher 32,381, with 4,775 (15 per cent) being for social rent: the difference is due to most social rent output no longer being grant-aided.<sup>1</sup>

The total is less than half of the projected 80,000 units needed in England annually at sub-market prices.<sup>2</sup> But it also raises the question of whether the output is itself 'affordable'? In London, where the current average for AR new build rents is 56 per cent of market levels, there is considerable variation. Some housing associations (notably Family Mosaic, now

part of Peabody) are deliberately cross-subsidising AR to keep it close to 'formula' or social rent levels. Indeed, the GLA is now offering grant of £60,000 per unit for 'London Affordable Rent' schemes, which will have rents close to social rent levels. In effect the GLA's new programme will force providers to choose between social and intermediate rents (now called 'London Living Rents', at 80 per cent of market levels), with the latter aimed at somewhat higher income groups. The GLA's concern with affordability should produce a more targeted output, especially given the higher grant and its prohibition on further conversion of existing social lettings to AR.

However, outside London, there is no such prohibition and the embargo on using grant for social rent remains. AR tends to be set close to the maximum of 80 per cent of market levels, but in some regions such as Yorkshire and East Midlands this may not place them at levels very much higher than social rents.<sup>3</sup>

There are wider concerns about the affordability even of social rents, whether set by associations or by local authorities. The *Review* has shown that these have drifted upwards for the last decade as a proportion of average earnings. This drift will have been halted by the four-year cut (of one per cent annually) in social rents imposed by government in April 2016. But the main beneficiary of these cuts is the government's welfare bill,<sup>4</sup> with any benefit to working tenants being complicated by other changes taking place in the welfare system.

In an economic context in which real incomes are stagnant (see page 4), the risks to the affordability of social housing are considerable. The first is that sub-market supply is insufficient in the first place. The second is that output from investment programmes and from 'planning gain' continues to shift away from lettings at genuinely affordable rents (although the policy shift in London is a positive sign here). The third is that social and AR rents resume their upward trajectory when the current cuts end in 2020/21. And the fourth is that welfare benefit changes – notably the imposition of local housing allowance caps on social rent claims from 2019 – further undermine the support available to low-income tenants to pay their rent. The promised review of rents policy must surely both pay strong heed to affordability and take proper account of welfare benefit changes, as well as acknowledging the need for social landlords to have stable income streams to underpin new investment.

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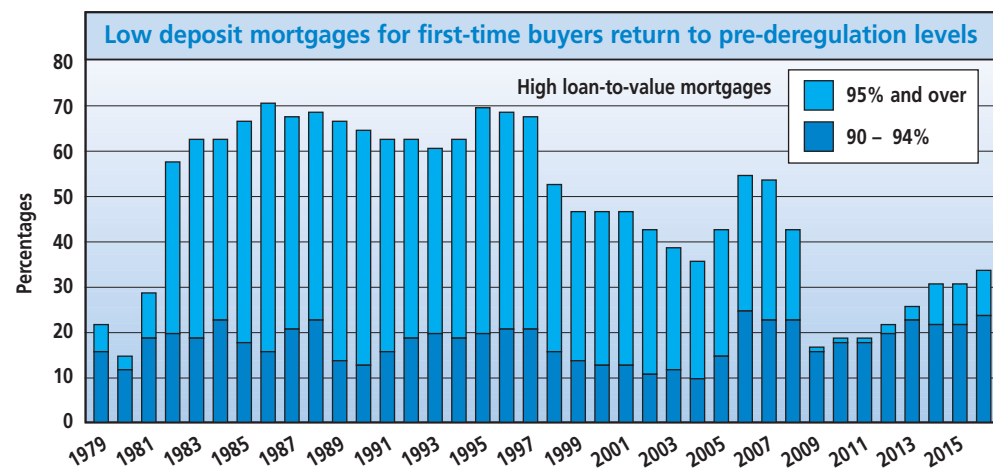
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- 2 See discussion in Commentary Chapter 2 of the *Review* in both the 2017 and 2016 editions.
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## Home truths?

Trying to predict the future of homeownership and the housing market is now more challenging than ever. Housing supply continues to lag behind effective demand (see page 8). House prices have slowed though the picture is complexly varied across the UK.<sup>1</sup> London's price growth is easing, with the outer boroughs now more buoyant than central London. The South and Midlands could see continued growth but there are still areas that have not 'caught up', notably Northern Ireland.

Measures of affordability give contrasting views depending upon how they are calculated. ONS recently showed that 25 per cent of neighbourhoods in England and Wales were inaccessible to prospective homeowners last year with average incomes lower than the cost of buying an entry-level property.<sup>2</sup> However, based on dual-earner incomes, affordability has eased to a degree (see page 11) – reflecting falling mortgage rates. Of course, affordability is no longer a complete measure of access to the market because borrowers fail stress tests and other checks.<sup>3</sup>

A significant proportion of first-time buyers (FTBs) rely on Help to Buy equity loans, still available until 2021. With a five per cent deposit, they effectively allow the borrower to enter the market with a 75 per cent loan rather than pay a premium for a 95 per cent one. Though FTB numbers remain below the long-term average, this market has grown – boosted by Help to Buy and the 'bank of Mum and Dad'.<sup>4</sup> The number of 95 per cent mortgage packages on offer has recently topped 300, up from just six in June 2009, but still well behind the 900 in June 2007 (see chart).<sup>5</sup> Recent analysis of Bank of England statistics suggests that there has been a 15 per cent increase in households taking out loans of 4.5 times income in the last 12 months.



Source: Council of Mortgage Lenders.

These changes reflect a deeply competitive mortgage market where new and existing players have to 'innovate' to get market share. They may also show that the Financial Policy Committee's macro-prudential rule – that the proportion of new mortgages with LTVs at or above 4.5 must be under 15 per cent of all loans – are impacting on some lenders, given that they will always impose their own buffer beneath this to ensure compliance. With tighter affordability tests, the imposition of a three per cent stress test<sup>6</sup> and closer scrutiny of incomes and outgoings it is a challenge to secure a high-LTV loan. As the Legal and General's 2017 report makes clear,<sup>7</sup> the proportion of buyers who expect to get help from family or friends in the future has been rising, up from a third in 2016 to more than 40 per cent in 2017 with about half (48 per cent) of FTBs expecting to get some help.

Recently there have been predictions of a major readjustment in house prices. Clearly there is some downward pressure reflecting uncertainty and the costs of stamp duty and of moving, with sellers having to adjust prices or hold back from selling. This in turn has created opportunities for gazumping to return as sellers seek to capture what demand exists. However the fundamentals would suggest that, despite wage growth lagging behind prices, any correction will be modest. With new instructions from existing owners falling, in some areas there will be competition but overall we are seeing transactions decline. A report on *Missing Movers* highlights the fact that before the downturn there were about 1.6 million home sales in the UK, falling to 860,000 in 2009 and recovering to 1.2 million in 2014, a level that has changed little since.<sup>8</sup> This suggests we are 'short of' an average of 400,000 transactions and most of these will be by mortgaged-movers.

This raises a myriad of questions about growing labour market/housing market frictions and the extent to which the latter is holding back the former. There will be a growing number of households who are frustrated at the lacklustre housing market and, just as with Generation Rent, will begin to feel the government is doing little to help.

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## How affordable is the market for first-time buyers?

Just when attention is focussed on the accessibility of the housing market to first-time buyers (FTBs), there is a dearth of statistics. The ONS's new mix-adjusted house price series is much better than its predecessor, but sadly ONS no longer provide a specific series for FTBs. The Halifax series is only now available commercially. This leaves the Nationwide mix-adjusted FTB house-price series as the only publically available tool for assessing changes in affordability at this end of the market, not distorted by changes in the mix of dwellings purchased over time.

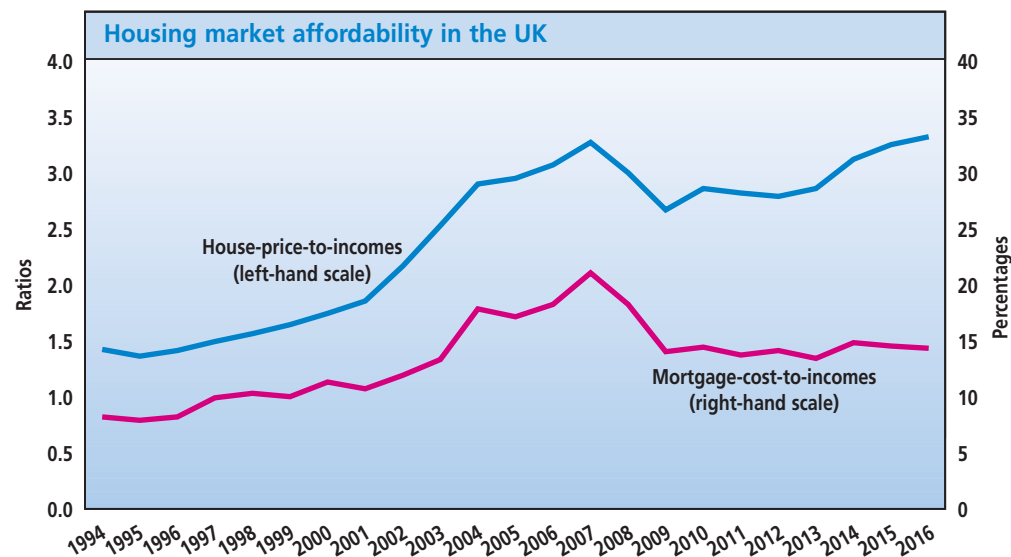
Nationwide shows that while FTB house prices in London are now more than 60 per cent higher than they were in 2007 before the housing market crash, in other parts of the UK the recovery has been far more modest. Indeed in the three northern regions of England, and in Scotland, Wales and Northern Ireland, house prices were still lower in 2016 than they were in 2007.

Across the UK as a whole, house-price-to-income ratios in 2016 had returned to 2007 levels. However, once account is taken of the fall in interest rates over that period, mortgage costs as a proportion of incomes can be seen (first chart) to have remained steady at 2003/04 levels, albeit rather higher than earlier in the decade. It should be noted that these figures are measured against average working-household incomes, as a high proportion of FTB households have dual incomes. Measures based solely on individual incomes have their uses but inevitably exaggerate the affordability barriers to homeownership.

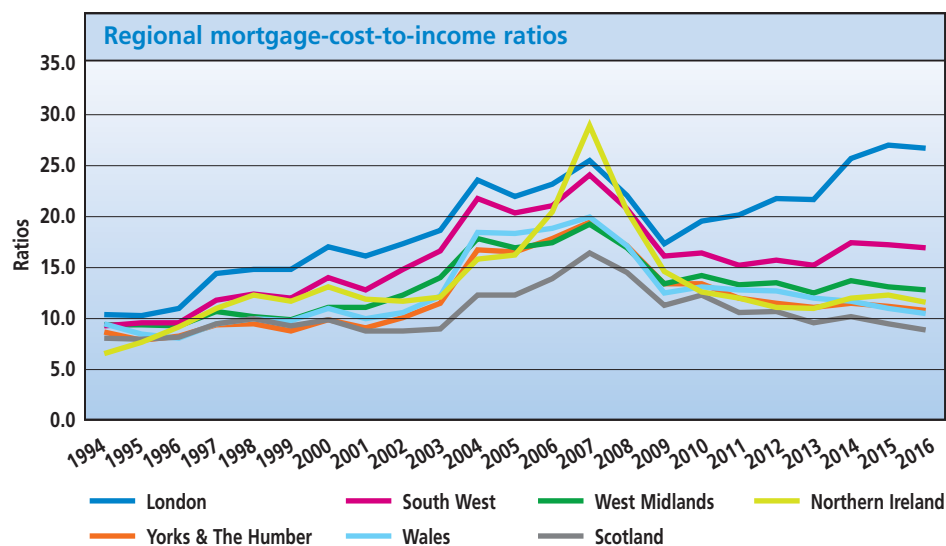
The UK figures reflect to a degree the sharp rise in London house prices in recent years. The second chart shows just how much the London picture differs from the rest of the UK. In particular it shows that it is only in London that mortgage-cost-to-income ratios have returned to 2007 levels. In other parts of Great Britain these ratios have fallen back to only a little above the levels prevailing early in the new millennium.

The story in Northern Ireland is rather different as the very sharp spike in mortgage-cost-to-income ratios in 2007 reflected the way house prices there trebled between 2001 and 2007, and then collapsed far more than in other parts of the UK. Indeed house prices in Northern Ireland in 2006 were barely 60 per cent of their 2007 levels. In this the Northern Ireland housing market was clearly more influenced by the similarly volatile market south of its border, rather than movements elsewhere in the UK.

In 2017 there are indications that London house prices are beginning to fall, and clearly the squeeze on real incomes and anxieties about post-Brexit economic prospects are a factor. Such uncertainty is likely to keep interest rates low for a while yet, but eventually they must be expected to rise from their current exceptionally low levels. This should act as a further check on future house-price growth.



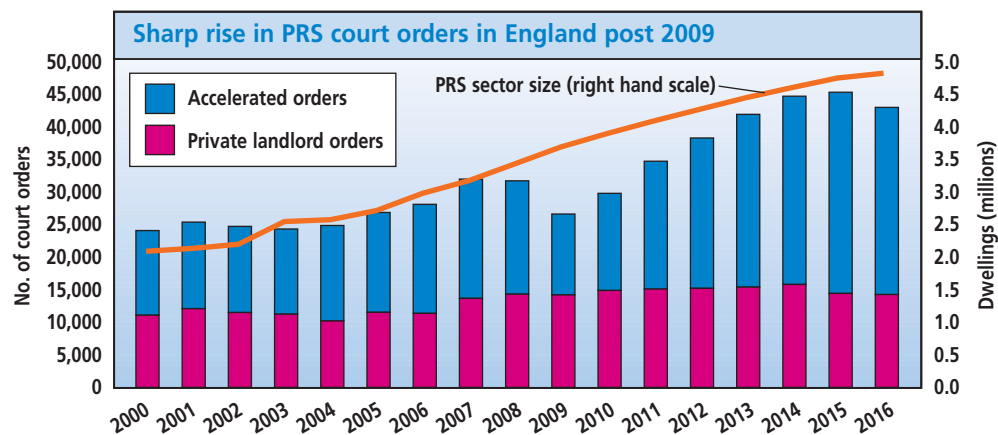
Source: Nationwide FTB house prices; Living Costs and Food Survey Working-Household Incomes.



Source: Nationwide FTB house prices; Living Costs and Food Survey Working-Household Incomes.

Note: Shows selected regions and countries, partly for clarity and partly because the Nationwide series does not provide figures for England or the South East. It provides data for standard statistical regions whereas household income data used by the UK Housing Review are for government office regions.

## Private rented sector insecurity – how big a factor in homelessness?



Sources: Ministry of Justice; UK Housing Review Table 17.

Note: The great majority of accelerated orders relate to private renting.

The recent sharp rise in levels of court orders for possession against private tenants, and a similar rise in the levels of homelessness resulting from the ending of assured shorthold tenancies (ASTs) have focused attention on the very limited security of tenure provided to private tenants.

It should be mentioned that court orders and AST homelessness relate only to a small proportion of tenancies that end in any year – nearly four-fifths end voluntarily. Just over a fifth can be said to result from landlord pressure, the most common reason being the desire to sell the property.<sup>1</sup>

18,750 households were accepted as homeless in England in 2016 as a result of ASTs ending, almost one-third of all statutory homelessness cases. This is a remarkable fourfold increase since 2009, although today's level is only slightly higher than in 2001. Indeed over that longer period homelessness due to the ending of ASTs has declined relative to the overall size of the sector, although a fuller reckoning also needs to take account of local authorities' homelessness prevention activities.

Similarly, PRS court orders rose from just under 27,000 in 2009 to nearly 46,000 in 2015, before easing back to just over 43,000 in 2016. But again the 2009 level was a bit of a post-credit-crunch dip and, over the whole period from the millennium, court order numbers have risen roughly in line with growth in the size of the PRS (see chart).

The Cambridge Centre for Housing and Planning Research has recently examined possession claims in the PRS in some detail.<sup>2</sup> They show that the growth rate of accelerated actions through section 21 claims is fastest in London, the East and South East, with

virtually no growth in the rest of England; four out five claims occur in the three worst-affected regions. This mirrors the *UK Housing Review* breakdown of homelessness trends, which also shows acceptances increasingly sharply in London and slightly less in the rest of the South, with only small increases in the Midlands and North. This can be related to the greater impact in London and the south of welfare policies bearing down on eligible rents for housing benefit in the PRS, both through the 'caps' and the failure to increase LHA rates in line with market changes (see page 15).

The ending of tenancies through accelerated procedures is, however, just one expression of private tenants' lack of security. It also puts tenants at a negotiating disadvantage, whether in respect of rents or requiring landlords to undertake repairs or meet other obligations. Indeed the Cambridge report cites cases where landlord evictions followed tenants making complaints about disrepair.

When the current tenancy regime was introduced in 1989 it reflected concerns about providing terms that could restore investor confidence and grow the sector, following its long decline (see page 13). Nearly three decades on, with the sector having nearly tripled in size, it is reasonable to ask whether that regime is still appropriate. Indeed Scotland has already decided to change, and from this December all new private tenancies will have extra security with the abolition of 'no cause' evictions. But alongside the usual grounds for possession (i.e. rent arrears) landlords will still be able to regain possession if they intend to sell.

Similar provisions form part of the long-standing security of tenure in the PRS in Germany. This has not been detrimental to investment in the sector, which accounts for half of all housing provision. More recently (2004) Ireland introduced a four-year period of security of tenure, following the initial six months of a tenancy, during which landlords can only obtain possession if they show good cause. Again a provision allows landlords to obtain possession if they wish to sell the property. This legal regime is backed by a regulatory regime (a 'Residential Tenancies Board'). While there are indications that some landlords are leaving the sector, this may relate to tax changes, as overall the sector has grown significantly since 2006.<sup>3</sup>

With Scotland taking the lead it is open to the other UK countries to consider reforms that would not only improve the experience and quality of the PRS offer for the – predominantly younger – households in the sector, but also enhance the sector's reputation.

### References

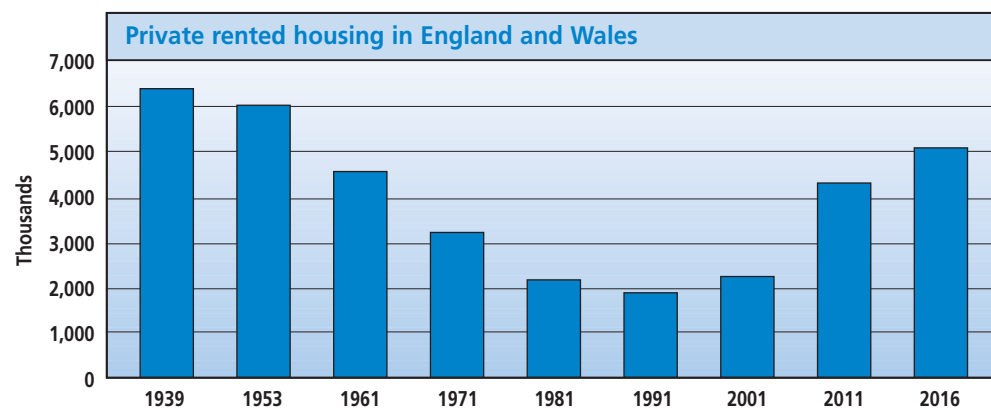
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## Private renting – taxing times for landlords

The recovery of the private rented sector in the UK is a notable feature of 21st century housing history. Far from being consigned to the dustbin, the sector has undergone a revival and stock numbers now exceed those of social housing. Its long decline through the twentieth century bottomed out in 1986 at 1,911,000 homes. Over the next 18 years it grew and in 2005 passed the three million mark (3,122,000). It then took only four years (2009) to reach four million and another four before exceeding five million in 2013. An indication of the impact is that the proportion of 25 to 34-year-olds renting from a private landlord increased from 24 to 46 per cent in the past decade.<sup>1</sup> The question now is whether growth in the sector has peaked, given the ever more negative fiscal and regulatory environment it is now operating in?



Sources: Historical Statistics of Housing in Britain, A. Holmans; UK Housing Review, Table 17.

The chart gives a sense of the history of the PRS and the impact of factors that shrank the market – such as the rise of homeownership, advent of slum clearance and imposition of rent controls – and its subsequent recovery aided by government policy, housing benefit<sup>2</sup> and most recently by access to interest-only mortgages. However over the last two years we have seen a largely unanticipated onslaught of tax and other changes bearing down negatively on both the PRS and buy to let, in an attempt to address a perceived imbalance with homeownership. This seems set to continue.

In the 2015 Summer Budget the chancellor announced major changes to the tax treatment of investment properties. From April 2017, higher-rate tax relief on landlords' mortgage payments was phased out and limited to the basic rate of income tax. In addition, landlords can no longer claim a ten per cent wear-and-tear allowance but for fully furnished properties have to submit actual costs. The tax changes do not only affect

higher-rate taxpayers. Tax liability was previously assessed on profits after these reliefs, but is now assessed before such reliefs are applied to turnover, pushing some basic-rate taxpayers into the higher banding and potentially losing them some entitlement to means-tested benefits.

We have also seen the introduction of higher rates of stamp duty on property purchases by landlords. Since April 2016, anyone buying a second home has to pay three per cent on top of the normal rate of stamp duty applying to the property, while property investors were excluded from the 20 per cent cut in capital gains tax applied to all other investors.

In 2016, the Prudential Regulation Authority set out a policy statement and supervisory statement (SS13/16) on *Underwriting standards for buy-to-let mortgage contracts*. Later in the year, HM Treasury announced that it was granting the Bank of England's Financial Policy Committee (FPC) powers of direction in the buy to let market, allowing the FPC from 2017 to direct the PRA and the Financial Conduct Authority to require regulated lenders to place limits on buy to let mortgage lending in relation to their loan-to-value and interest-coverage ratios.

The landscape for individual and so-called 'amateur' landlords has changed radically though the government is hoping that by excluding registered companies from some of the tax changes they have provided an alternative. However, in converting to a limited company an individual will trigger a CGT liability as well as having to meet legal and transaction costs. At the same time the government hopes to have reduced the damage to the institutional investor market which mainly supplies new build homes.

Not surprisingly there has been some turbulence in the buy to let market and its growth has slowed since April 2016, with more corporate investors emerging. Landlords have widened their search for yield and capital appreciation. Countrywide estimates that the changes have reduced the competition between landlords and first-time buyers, at least in some markets.<sup>3</sup> Landlords are now buying fewer homes and more selectively, and some are disposing of property – typically those with low returns.

Looking at the party manifestos in the run up to the general election there was a wide appetite to further regulate the private rented sector. Given the new found significance of the Generation Rent vote it is hard to see how this agenda can fail to roll forward, as it has already in Scotland and Wales. These are indeed taxing times for landlords.

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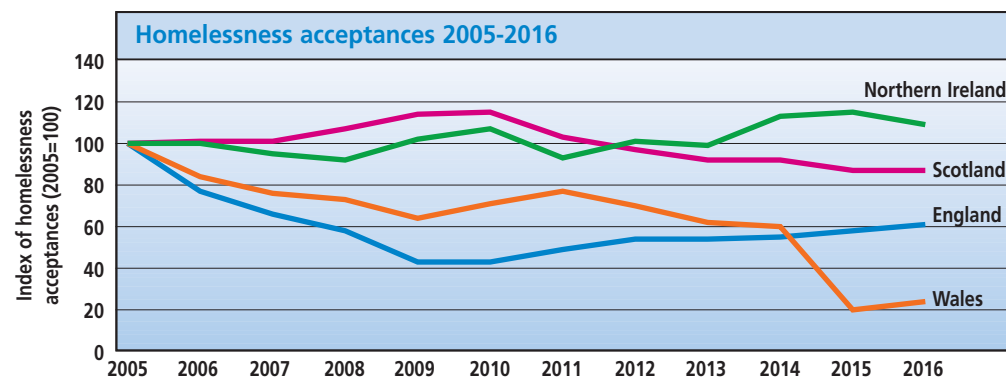
1 DCLG (2017) *English Housing Survey: Private rented sector 2015-16*. London: DCLG.

2 In reply to a question by Clive Soley, MP on 30 January 1991, the housing minister Sir George Young stated: 'Housing benefit will underpin market rents – we have made that absolutely clear. If people cannot afford to pay that market rent, housing benefit will take the strain.'

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## Homelessness – can prevention work have a lasting impact?

Statutory homelessness acceptances have been growing in England since 2010, albeit that the rate of increase has significantly slowed. Homelessness acceptances had also been rising in Northern Ireland, but fell in 2016. As a result of policy changes, there have been recent falls in formal homelessness acceptances in Scotland and Wales, though that pattern has now stabilised in Scotland and may have started to reverse in Wales (see chart).



Source: Official homelessness statistics from the four administrations.

The big policy story on homelessness in England is the passing of the Homelessness Reduction Act 2017, based on recommendations from an independent panel convened by Crisis.<sup>1</sup> The panel focused on the distinction between 'priority' and 'non-priority' groups, which results in most single homeless people only receiving advice and assistance. Research has consistently demonstrated that this support is often very poor.<sup>2</sup> While in Scotland the priority need criterion has now been abolished, so that virtually all homeless people are entitled to rehousing, this was judged unviable in England's more pressured housing market.<sup>3</sup>

The panel instead recommended the approach encapsulated in the Housing (Wales) Act (2014): more robust homelessness prevention and relief duties owed to all eligible households, regardless of priority need status.<sup>4</sup> Its key proposals were incorporated into a private members bill, and gained the government's backing together with £61 million towards its implementation, which is likely to begin in 2018.

An interim evaluation of the 2014 homelessness legislation in Wales found stakeholders 'overwhelmingly positive' about its impact,<sup>5</sup> and the 2016/17 official statistics indicated high levels of success with both prevention (62 per cent) and relief (41 per cent) interventions. The number of priority-need households assisted under the full duty is correspondingly much lower now in Wales than statutory homeless 'acceptance' levels under the pre-2015 system, although it has risen somewhat in the most recent year.

Levels of rough sleeping appear to be rising in Wales,<sup>6</sup> as well as in Scotland. In Glasgow a Rough Sleeping Taskforce has been established and there have been hints of action in the Scottish Government's next Programme for Government.

In Northern Ireland, statutory homelessness is relatively high because the homelessness 'route' is regularly used to rehouse older people no longer able to maintain a family home. Statutory homelessness figures in the first quarter of 2017 were significantly higher than in the same quarter in 2016, though this may turn out to be a statistical anomaly as overall trends continue downward. Northern Ireland has had a rolling sequence of national homelessness strategies in place since 2002, with the latest published in April 2017. The previous strategy was said to be 'widely perceived as moving homelessness policy in the right directions... [but] Gaps remained in service provision and progress in delivering the Strategy had not always been rapid, including the development of preventative services.'<sup>7</sup>

New statistical modelling for Crisis by Glen Bramley predicts that levels of 'core' homelessness will continue to rise in the medium term in Great Britain, with the possibility of a slight levelling-off in the short term due to housing market corrections and a favourable labour market.<sup>8</sup> In the longer term it is likely that numbers will increase further, particularly in London, with greater use of unsuitable temporary accommodation as well as rough sleeping and sofa-surfing. Drivers include the availability of affordable accommodation, the extent to which prevention measures are used, and the demographics of people experiencing homelessness. But the most important driver of homelessness in all its forms is poverty.<sup>9</sup>

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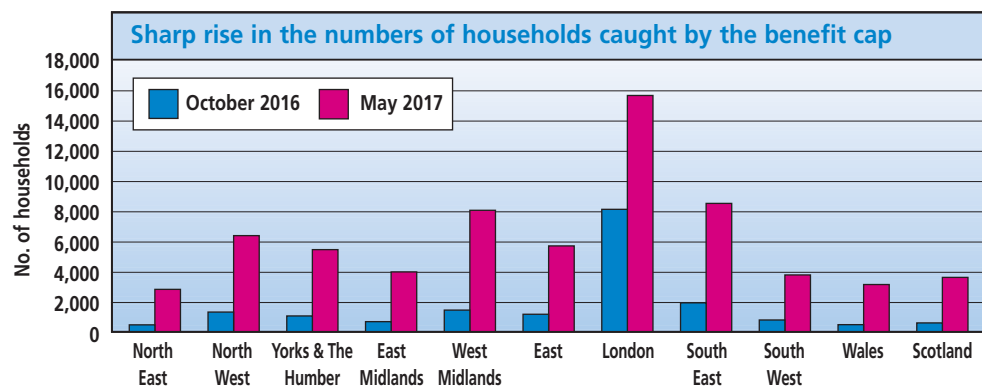
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- 2 Dobie, S., Sanders, B., & Teixeira, L. (2014) *Turned Away: The treatment of single homeless people by local authority homelessness services in England*. London: Crisis; Mackie, P. & Thomas, I. (2014) *Nations Apart? Experiences of Single Homeless People across Great Britain*. London: Crisis.
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## The unfolding welfare reform challenges

The welfare reforms made by the coalition and Conservative governments continue to roll out across Great Britain, presenting ever greater challenges both to claimants and to the social landlords trying to assist low-income households. The most immediate new challenge is the sharp cut in the maximum benefit cap, applied to out-of-work households below pension age, but other tests are also in train.

Introduced in November 2016, the benefit cap has already seen more than a trebling in the numbers whose benefit is restricted (now totalling over 68,000 households – see chart). The greatest numbers affected are in London, reflecting the higher housing costs in the capital. But proportionately the increases have been greater in other parts of the country, as the lower caps impact to a much greater extent on larger households, even in areas with relatively low housing costs. The cap is now also affecting smaller families, with almost half of all cases involving lone parents with a child no more than three years old.



Source: DWP benefit cap statistics

While less dramatic, other welfare cuts continue to deepen, with the freeze (until 2020) on local housing allowance (LHA) rates for private tenants already seeing LHA fall further below average market levels. A recent analysis by Savills found that in some two-fifths to a half of all areas, LHA rates are now more than ten per cent lower than the '30th percentile' rates at which they were set in 2011.<sup>1</sup>

Previous analyses of DWP statistics clearly showed the impact of the LHA limits in reducing the numbers of housing benefit claimants able to secure tenancies in inner London, and in particular the impact on young single people (aged under 35) subject to the much lower shared accommodation rate (SAR).<sup>2</sup> However it is difficult to assess those impacts as more and more claimants are moved on to universal credit (UC). As a result they no longer feature in the housing benefit statistics, nor can they be identified in the

current UC figures. A clearer picture will emerge as the September UC statistics will include, for the first time, a tenure breakdown.

A survey undertaken for Crisis clearly indicates the difficulties being experienced by low-income households in accessing the PRS, which continue to deepen.<sup>3</sup> This evidence is underlined by the sharp increase in numbers of homeless acceptances that result from the ending of a PRS assured shorthold tenancy, along with the decline in the extent to which homeless prevention action enables households to retain their tenancies (see page 12).

Looking ahead, there are also major concerns about the proposal to extend the LHA limits to social sector tenants from April 2019. This policy is to be phased in, but will apply to all UC cases, and also to housing benefit cases where tenancies commenced – or have been renewed – after March 2016. There has been considerable debate about the provisions to exempt supported housing from this regime, but its impact goes far wider than this, especially in those areas (the north of England and parts of Scotland and Wales) where social sector rents are not far below market levels.

In England it has been found that only in a small number of areas is there any overlap between council rents and LHA rates, but with housing association rents there are overlaps in almost two-fifths of local authority areas. Within those figures, more detailed analysis indicates that by far the biggest effects will be on single people aged under 35, soon eligible only for the lower SAR rather than the much higher one-bedroom LHA rate.<sup>4</sup>

Across Great Britain as a whole it is estimated that the SAR-based caps will impact on close to 50,000 young single people in the social sector. This will put pressure on social landlords to consider the retrograde step of providing shared accommodation for young single people, however inappropriate, and which is often problematic in terms of the more intensive management such tenancies require, with their faster turnover and hence higher costs.

These new challenges come, of course, on top of those resulting from other, ongoing welfare reforms that already affect low-income tenants and social landlords. These wider reforms are considered in more detail in the *UK Housing Review 2017* and will continue to be assessed in future editions.

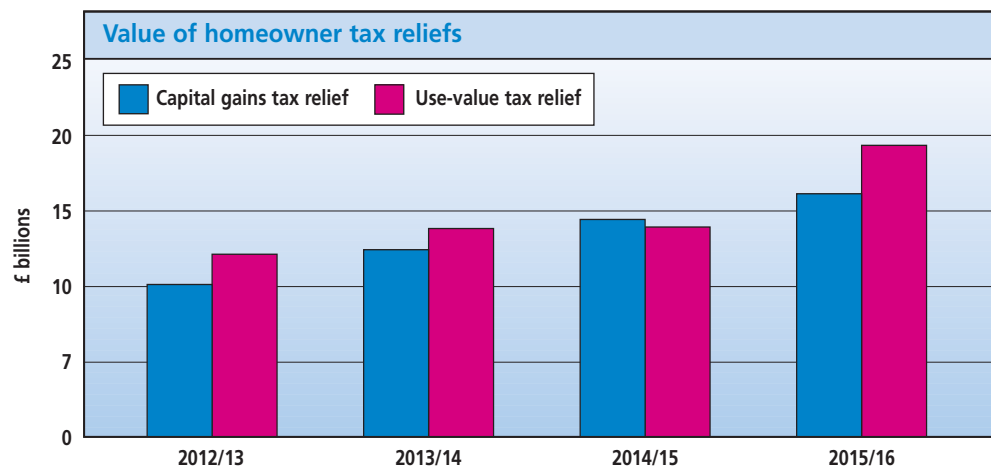
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- 1 Savills (2017) *Impact of the LHA Freeze*. London: Savills Research.
- 2 See Wilcox, S. (2017) 'Another turn of the screw: the further effects of welfare reforms', in Wilcox *et al*, *UK Housing Review 2017*. Coventry: CIH.
- 3 Reeve, K., Cole, I., Batty, B., Foden, N., Green, S. and Pattison, B. (2016) *Home: No less will do; Homeless people's access to the private rented sector*. London: Sheffield Hallam University and Crisis.
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## Housing, taxation and the generations

Housing tax provisions are complex. Not only do they vary between and within tenures, but they also impact very differently on younger and older households. Recognition that Britain's acute housing market problems cannot be dealt with simply by increasing supply (see page 8) has focused attention on the tax issues that inflate and distort housing demand: this raises some prospect of reform. If it were to happen, a key dimension would be to look at the way taxes affect different age groups.

The two primary tax reliefs for homeowners are the absence of capital gains tax (CGT) on the primary residence, and the absence of any tax on the 'use value' of owners living in the home they own. The latter (originally known as Schedule A tax) was abolished in the UK over 50 years ago. Logically, mortgage interest tax relief (MITR) existed to provide an offset to Schedule A tax, but it lingered on for homeowners for a further 35 years. While historically the valuations on which Schedule A tax was levied had been allowed to fall well below market values, at full value it would raise significant sums – even after any offsetting tax relief.



Source : UK Housing Review 2017 (updated). Capital gains tax (CGT) is shown net of a 40% provision for 'rollover relief'; use value tax is shown net of provision for offsetting mortgage-interest tax relief.

The sums involved are considerable. Taken together and even after making provision for 'rollover relief' for CGT, and for MITR against a use-value tax, these two homeowner tax reliefs were together worth more than £35 billion in 2015/16 (see chart). Both benefit established homeowners rather than recent or would-be first-time buyers. Moreover such is the extent of the tax benefits they are to some degree reflected in

inflated house prices, further benefitting established owners but increasing the 'entry price' for new first-time buyers.

CGT relief helps those who have been owners for a long period, and in particular those whose ownership dates from before the sharp rise in house prices over the decade to 2007. It is also of greater benefit to those who bought more expensive homes.

The absence of a use-value tax also benefits established owners, either those who have paid off their mortgage or have seen it shrink to a small proportion of their home's current value. In their case they would be liable to the tax without any, or any significant, MITR offset. In contrast first-time buyers would rarely pay any use-value tax if it existed, as in their case MITR would likely offset their gross tax liability in full.

There are, of course, some taxes that relate to property values. Inheritance tax does capture some of the housing wealth accumulated by homeowners over a lifetime – but only to a very modest degree. In 2015/16 the value of inheritance tax based on housing wealth was just £1.7 billion. Stamp duty also reflects property values – and is more significant in that it raised £7.5 billion in 2015/16 – but this is still significantly below the amount that would be raised by CGT. It also has the disadvantage that it is not an incentive to mobility because it is levied every time someone moves, and is more of a burden to frequent movers. This anomaly would be removed by CGT.

The other tax that is, at least in part, related to property values is council tax. However the limited council tax property value bands, and the differentials in the tax rates applied within each band, both serve to make the tax a regressive one and have more impact on those in lower-value dwellings. Nor is it based on ownership – it applies equally to private and social sector tenants, as well as to homeowners. Moreover, the way that central government's financial support to local government is structured also softens the impact of the council tax in higher-value areas. For all these reasons council tax should be seen as something of a flawed hybrid, rather than as a property tax as such.

Property taxes are, of course, highly sensitive. Longstanding and authoritative critiques of the existing arrangements have so far borne little fruit. At best the recent flurry of stamp duty reforms have made the tax a little more progressive and have removed the anomalies created by its old 'slab' structure, but its differential impact on frequent movers still exists.

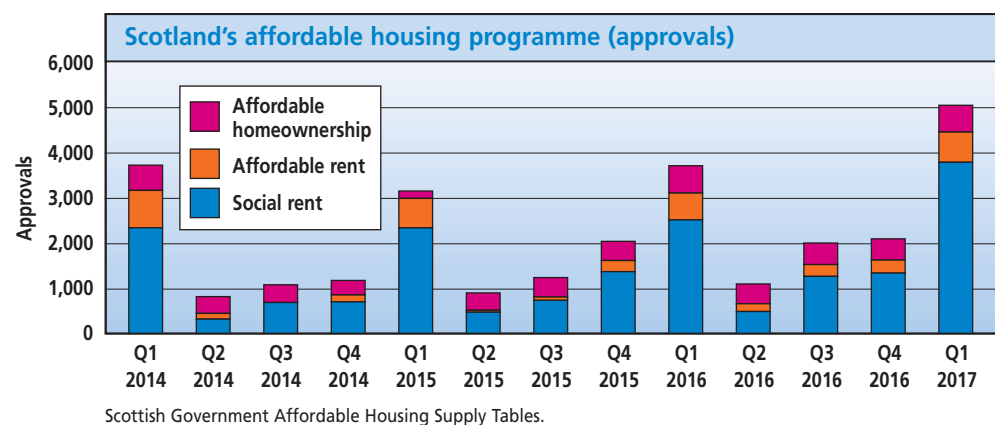
However gradual, a move towards CGT and use-value taxes, with reduced reliance on stamp duty and council tax, would be a step towards a property tax regime more coherently related to property values. It would also be a step towards a tax system more balanced in its impact on younger compared with older households.

## Scotland leads on private rented sector reform

As the *Review* has consistently pointed out, Scotland's housing policy is now clearly diverging from that of the UK government. For example, the right to buy in Scotland has ended with remarkably little fuss, and an affordable housebuilding target for the new parliament is now in place. Reforms in the private rented sector are in hand, including ambitious energy-efficiency standards, and are discussed here.

House prices in Scotland returned to their 2007 peak in April 2017, and moved above it in May.<sup>1</sup> The annual increase was 3.5 per cent to May 2017, compared to 4.7 per cent for the UK as a whole. Nonetheless, the housing market generally has shown signs of weakening. Sales fell by 17 per cent in the year to March 2017, although this decrease was the smallest among the UK's four nations. Private construction has slowed: starts fell by five per cent in 2016.<sup>2</sup> Across the country as a whole, completions are above projected household growth to 2037, but there were deficits in Glasgow, Edinburgh and Aberdeen.<sup>3</sup>

The Scottish Government is committed to delivering 50,000 units of affordable housing over the 2016-21 parliament. Within this, 35,000 homes will be social rented. There was a marked upswing in social sector starts in 2016/17, to 6,332, the highest recorded in the post-devolution era.<sup>4</sup> Overall there were 9,308 affordable starts in 2016/17 which is close to the overall affordable target, albeit that the balance needs to shift towards social renting.<sup>5</sup> In June, local authorities were given funding allocations for the next three years, in part to improve their ability to deliver the affordable homes target.<sup>6</sup>



The Private Housing (Tenancies) (Scotland) Act 2016 marks the most significant reform of private renting in more than a quarter of a century and is expected to come into force in December 2017. New PRS tenancies will be open-ended and significantly more secure through the virtual ending of 'no fault' evictions (see page 12).

Tenants will also be able to refer proposed rent increases to a rent officer, and the act also makes provision for 'rent pressure zones' where rents are rising too quickly, are causing tenants difficulties or are increasing pressure on the local authority to provide more housing or to subsidise housing costs. Edinburgh has already started to make the case for one. If ministers agree to such zones, rent increases on existing tenancies will be capped for a maximum of five years, with the cap set at no lower than CPI +1 per cent.

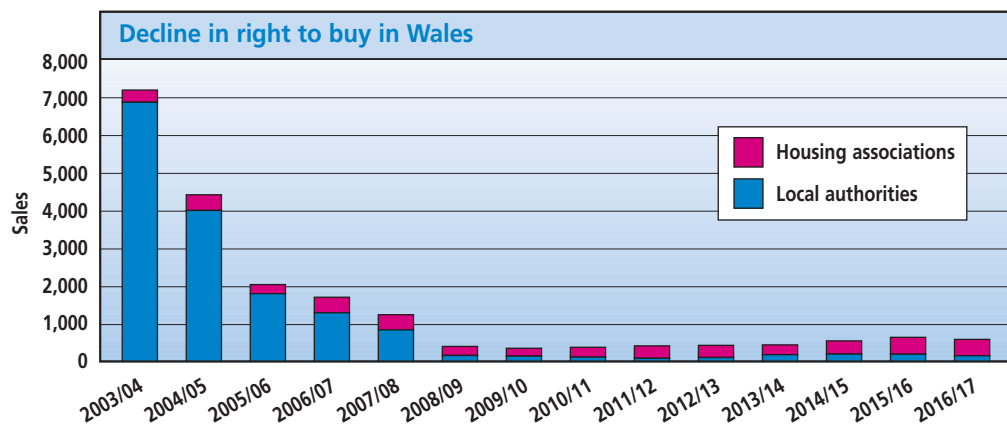
Meanwhile, a Scottish Government consultation on minimum energy-efficiency standards in the PRS took place between April and June. New tenancies would be required to meet EPC band E from April 2019, and all PRS lettings would have to meet it by 2022.<sup>7</sup> It envisages the standard being raised to EPC band D for new tenancies from 2022 and for all private tenancies by 2025. It is estimated that some 30,000 dwellings will be affected by the initial requirement and a further 95,000 to reach the higher standard.<sup>8</sup> Sub-standard properties are associated with lack of a mains gas boiler and older detached dwellings with stone walls, both of which are prevalent in rural areas. The consultation also sought views on a possible upper limit on the cost of improvements, as well as lower energy standards being required in properties where they are technically or legally difficult to achieve (e.g. listed buildings).

Finally, the Scottish Government's Rent Income Guarantee Scheme is still being developed in an effort to support the build to rent sector, which has been slower to take off than in England. The government believes that it will help to support the development of some 2,500 properties and generate £500 million of investment. The government's maximum exposure is ten per cent of rental income, and this forms the basis of the contingent liability of £15 million.<sup>9</sup>

### References

- 1 ONS House Price Index.
- 2 Rettie Housing Market Bulletin, July 2017 (see [www.rettie.co.uk](http://www.rettie.co.uk)).
- 3 *Ibid.*
- 4 Scottish Government Social Sector New Build Statistics.
- 5 Scottish Government Affordable Housing Supply Tables.
- 6 Scottish Government (2017) *£1.75 billion boost for investment in affordable housing*, press release, 13 June. Edinburgh: Scottish Government.
- 7 Scottish Government (2017) *Energy efficiency and condition standards in private rented housing: A Scotland energy efficiency programme consultation*. Edinburgh: Scottish Government. 'EPC' means 'Energy Performance Certificates' and the bands range from 'G' (very poor) to 'A' (highly efficient).
- 8 Centre for Housing Market Analysis (2017) *Scottish Housing Market Review*, Q2. Edinburgh: Scottish Government.
- 9 Scottish Government (2017) Rental Income Guarantee Scheme, Build-to-Rent Programme: FOI release, 1 August. Edinburgh: Scottish Government.

## Wales develops distinctive housing policies



Source: Welsh Government, social landlord housing sales statistics.

Differences between the UK government's housing policies and those emerging in Wales continue to grow. Two substantial pieces of housing legislation were passed during the fourth term of the Welsh Government: the Housing (Wales) Act 2014 and the Renting Homes (Wales) Act 2016, which have significantly changed the housing landscape.

The first year of a new government term has seen legislation heralding the abolition of both the right to buy and the right to acquire.<sup>1</sup> Five authorities, including Cardiff, have already taken advantage of powers in the Housing (Wales) Measure 2011 to apply to suspend the right to buy in their areas in order to 'protect social housing assets'. However, as the chart shows, without extra incentives such as those added to right to buy in England in 2012, sales are already running at very low levels.

The new government is also developing a land transaction tax to replace stamp duty (rates and bands will be set in autumn 2017).<sup>2</sup> There is also now a commitment to reform the regulatory controls over housing associations in Wales following the ONS decision to reclassify them as public bodies for accounting purposes.

Social rents have continued to rise, rather than being cut by one per cent annually as in England. A review of rent policy is ongoing, part of the context for which is the coming application of LHA rates to the social housing sector. This will have major implications, in particular for some housing associations operating in the South Wales Valleys, notably those set up through stock transfers. Welsh local authorities have in the meantime taken a pragmatic approach to increasing their rents,<sup>3</sup> seeing the opportunity to invest in new council housing as well as in existing stock (for the eleven councils that still own housing). For example, Flintshire Council has plans to build 500 new homes by 2021, 300 for Affordable Rent and 200 for social rent.

Affordable housing delivery is very much in the spotlight, with a target of 20,000 for the period 2016-21. Although this includes Help to Buy (to support the purchase of 6,000 homes), it still represents a significant increase on the previous target of 10,000. Housing supply pacts have been signed by the Welsh Government, first with Community Housing Cymru and the Welsh LGA and, more recently, with the Home Builders Federation and the Federation of Master Builders. The pacts make commitments aimed at increasing supply.

The Welsh Government has continued its normal practice of adding to the Social Housing Grant budget during the year. During 2016/17, £30 million was added, taking the total to about £100 million. In addition, £20 million from reserves has been targeted specifically at innovative models of housing that can be built quickly and reduce or eliminate fuel bills, with an expected 1,000 affordable homes to be supported via this mechanism. A steering group has overseen the development of criteria and a bidding process, and there are indications that, dependent on delivery, a bigger scheme could be forthcoming.

The government's affordable housing programme also includes co-operative housing of various tenures and a Rent to Own model. The latter provides tenants with the option to buy via shared ownership. The aim is to provide at least 1,000 homes on this basis during the current government's term of office.

How likely is it that the 20,000 affordable supply target will be achieved? Looking first at Help to Buy, given that more than 2,000 homes have already been bought using a government shared equity loan since May 2016, a target of 6,000 purchases by 2021 seems if anything rather cautious.

Turning to affordable housing delivery, statistics for 2016/17 are not yet available but in 2015/16 local authorities reported 2,400 additional affordable homes across Wales, with 94 per cent of these delivered by housing associations. Providing 14,000 additional affordable homes over five years therefore looks quite challenging, even if everything in the economy goes smoothly. In this context, an August 2017 briefing paper from Community Housing Cymru, the Home Builders Federation and Federation of Master Builders<sup>4</sup> makes a series of recommendations on public land disposal and various aspects of planning, all aimed at securing the 20,000 target.

What is positive, and another contrast to the position in England, is a significant degree of consensus about the importance of affordable and social housing and a considerable amount of joint working being invested in its delivery.

### References

- 1 See [www.senedd.assembly.wales/mglIssueHistoryHome.aspx?IIId=17260](http://www.senedd.assembly.wales/mglIssueHistoryHome.aspx?IIId=17260)
- 2 See [www.assembly.wales/laid%20documents/pri-ld10747-ra/pri-ld10747-ra-e.pdf](http://www.assembly.wales/laid%20documents/pri-ld10747-ra/pri-ld10747-ra-e.pdf)
- 3 Current Welsh Government policy allows councils to raise rents by CPI plus 1.5% plus £2 per week to 'bring historically low rents in line with "target" rent levels.'
- 4 See [https://chcymru.org.uk/uploads/general/Briefing\\_\\_20000-Homes\\_\\_ENG\\_\\_Final-2.pdf](https://chcymru.org.uk/uploads/general/Briefing__20000-Homes__ENG__Final-2.pdf)

## Northern Ireland's political uncertainty

Unlike Scotland and Wales, Northern Ireland shares with England an uncertain political environment which is hampering both decision-making and progress in tackling housing and welfare issues. After elections in March, the Northern Ireland Assembly was suspended for the fourth time in 19 years, as a result of a misfired renewable heat incentive scheme. Agreement on restarting the assembly is now complicated by the deal made by the Democratic Unionist Party to sustain the minority Westminster government, but also by disagreement between the parties on equality issues such as the Irish language and same-sex marriage.

In the meantime, there is no minister responsible for housing nor is there a budget for the current financial year. Normal operations continue but without the assembly there will be little progress on pressing issues such as the Northern Ireland Housing Executive's future, and its need to bring its homes up to the Decent Homes Standard.

Rent levels present a major challenge when it comes to reinvestment in the Housing Executive's stock. Its rents are much lower than those of housing associations, and around £20 per week less than the average rent for similar local authority housing in England. Rent freezes (following the examples from England) have not helped. There has also been a lack of political agreement on a new governance model that could permit the Housing Executive to borrow, stalling any reforms. Despite this, NIHE is exploring the possibility of building new homes in its estates, to help deal with unfitness in the stock and increase the number of new units. Any proposals will however need approval from the Department for Communities (DfC).

Another important issue is the potential impact of Westminster's welfare reforms. The bedroom tax and benefits cap will continue to be almost fully mitigated in Northern Ireland until March 2020, with a review scheduled in 2018/19. However stakeholders are

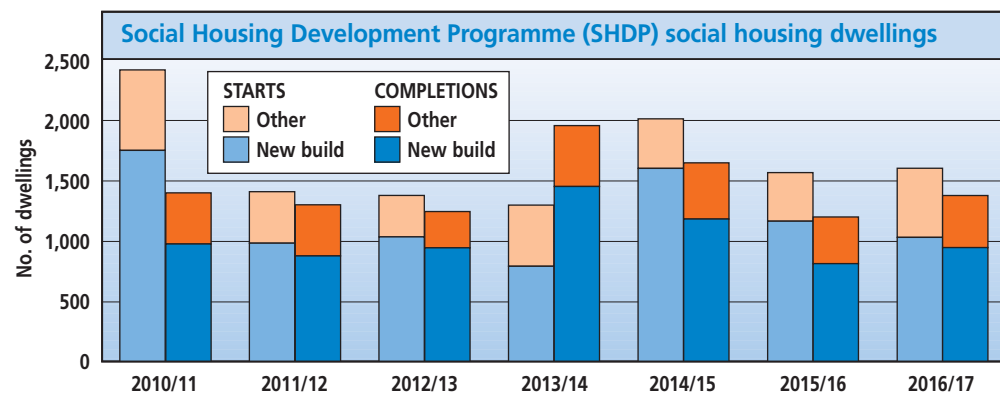
calling for this mitigation to be extended to the UK government's plan to apply local housing allowance rates to social sector rents from 2019 (see page 15). A recent report by CIH Northern Ireland showed that the change will make new social housing less viable in certain areas. The problem is that any mitigation will inevitably affect Northern Ireland's block grant.

In the meantime Northern Ireland persists in having a housing market distinct from the rest of the UK, not least in the slowness of its recovery from the credit crunch. Such was the plunge from their (unrealistically high) pre-2007 levels that house prices are now barely 60 per cent of what they were, and are forecast by PwC to grow more slowly than the rest of the UK over the next five years (see page 11). Market sales fell by 25 per cent in the first quarter of 2017, although this may have been an anomaly and there was an encouraging rise in private-sector new build starts compared to the first quarter of 2016. Nevertheless any recovery is fragile given that the Northern Ireland market seems particularly vulnerable to the uncertainty of the current political stalemate and the UK's decision to leave the EU.

DfC originally set targets for social housing starts of 1,600 in 2016/17, 2,000 in 2017/18 and 2,200 in 2018/19. The 2016/17 target was achieved, with 1,604 starts, although this depended to a considerable extent on acquisitions and refurbishment, which accounted for 36 per cent of the total. Completions in 2016/17 were 1,387 units, of which 955 were new build.

However this year's target has now been cut to 1,750 as the DfC's capital budget is only two-thirds of its original bid. After pre-existing commitments were met, the remainder was directed to housing but this still only provides £106 million for the Social Housing Development Programme – the same as 2016/17. In order to raise output, DfC is giving lower priority to advanced land purchases, possibly risking future years' targets. It is unlikely that housing associations will achieve more than 1,750 starts in any case, due to late confirmation of the programme and the deferral of revisions to total cost indicators and housing association grant.

Given the growing evidence of housing need and the fragile private market it is perhaps surprising that social housing investment has not featured more strongly in Northern Ireland's budget. When the DUP negotiated its £1.5 billion 'confidence and supply' deal with the Westminster government, housing did not feature. Strains on housing-related budgets have been apparent from recent cuts in supported housing services in the voluntary sector, combined with continued uncertainty about dealing with welfare reforms. Additional social housing supply is urgently needed, but is there the budgetary capacity – or the development capacity within the still-small housing association sector – to provide the increased supply that Northern Ireland now requires?



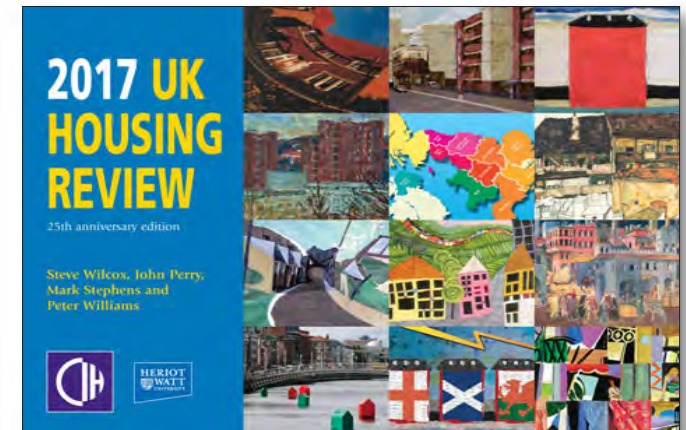
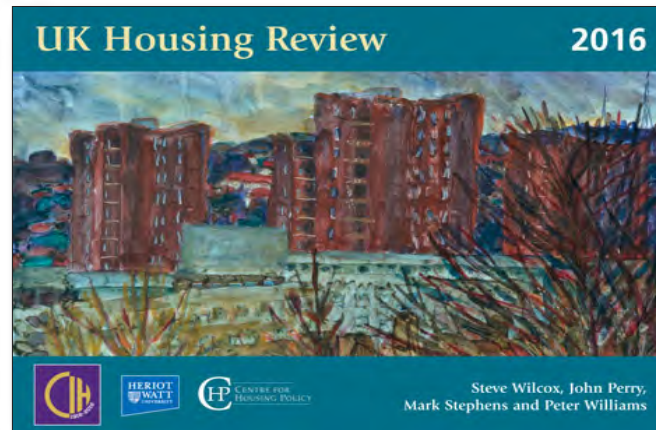
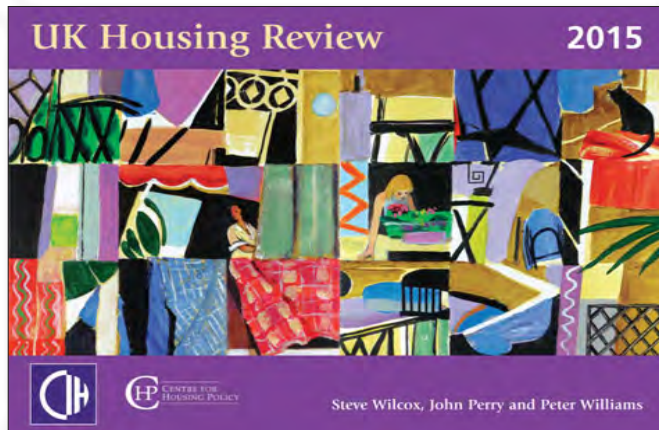
Source: Department for Communities, Northern Ireland Housing Bulletin.

## Updates to the 2017 Compendium of Tables

Alongside, and contributing to, the preparation of the *Briefing Paper*, 26 tables from the Compendium of Tables in the main *Review* have been updated. They are listed below.

The new tables can be seen and downloaded at the *Review's* website, [www.ukhousingreview.org.uk](http://www.ukhousingreview.org.uk)

Table 1	Key economic trends	Table 48	Median regional house prices by size of dwelling in 2016
Table 11	Office for Budget Responsibility 2017 Spring Budget Economic Forecast	Table 51	Mortgage arrears and repossessions
Table 19 (a-l)	Housing starts and completions in the United Kingdom	Table 55	Buy to let loans
Table 33	Tenure, cars, consumer durables and second dwellings in Great Britain	Table 91 (a-c)	Homeless households in temporary accommodation in England, Scotland and Wales
Table 37	Tenure and sources of income in United Kingdom in 2015/16	Table 92	Reasons for homelessness in England
Table 38	Tenure and gross weekly household income in United Kingdom in 2015/16	Table 93	Homelessness: Categories of need in England
Table 39b	Numbers of property transactions in the United Kingdom	Table 94 (a&b)	Homelessness by region in England
Table 40	Numbers of mortgage advances per year in Great Britain	Table 95 (a&b)	Rough sleepers in England
Table 42 (a-d)	Advances to first-time buyers and moving owner-occupiers	Table 96	Landlord possession claims in England and Wales
Table 43 (a&b)	Mortgage-cost-to-income ratios for first-time buyers and moving owner-occupiers	Table 103	Welsh social landlord lettings
Table 47 (a&b)	Average regional house prices and index of prices	Table 117	Housing benefit caseload and payments by tenure and region at May 2016



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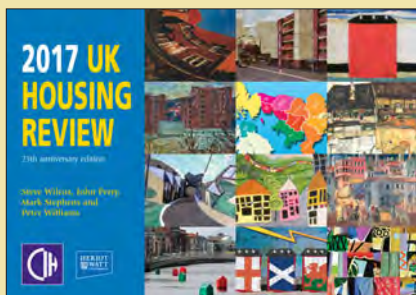
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Tables from the full **Review** and recent updates to them are available on the UKHR website:  
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See inside the back cover for details of how to obtain your copy of the full **UK Housing Review 2017**. Next year's edition is planned for March 2018.

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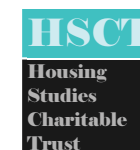
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