

TACKLING OUR HOUSING CRISIS

WHY BUILDING MORE HOUSES IS NOT THE ANSWER

by Tom Chance, Anne Chapman and Maya de Souza

At the 2015 Conservative Party Conference David Cameron announced the beginning of a “national crusade to get houses built. That means banks lending, government releasing land and, yes, planning being reformed.”

The Prime Minister’s call to arms reflects the widely held view that the current housing crisis results from a failure to build enough new houses, causing a restricted supply and inflated prices. Increase the supply of houses, so the theory goes, and housing will inevitably become more affordable, so build, build, build! It is a view shared by organizations as diverse as Shelter, The Town and Country Planning Association, Policy Exchange, and Generation Rent.¹

However the laws of supply and demand are not always that simple. In his seminal work on famine Amartya Sen² showed that lack of supply was a minor factor in comparison with the ability to buy. In the great Bengal famine people “died in the streets in front of shops bulging with grain.” Similarly in situations of wealth inequality, a segment of the population may not be able to afford the market price of housing, no matter how many houses are built.

In the mid 1990s, houses in many parts of the UK (with the exception of London and the South East) were relatively affordable. In less prosperous areas there were signs of housing markets collapsing: in localized areas of low demand, houses that had previously fetched £40,000 were by the early 2000s being sold for £10,000 or less. In the north-west of England a likely cause was the oversupply of new housing on peripheral sites — more housing had been built or given planning permission than the household projections suggested was needed.³

These falling prices triggered a spiral of neglect and then abandonment because housing markets do not behave as markets are supposed to. Property is an investment, bought in the expectation that its value will rise in the future. If prices start falling in an area, this does not stimulate demand but curtails it. Property is not maintained as the expenditure on maintenance will not be recouped by an increase in value, so the quality of the stock and the area declines, prices fall even further, and properties are eventually abandoned. In the North West this cycle of decline was checked when the Regional Planning Guidance introduced restraint policies to reduce the level of building.⁴

New Houses Outpace New Households

What has happened in the intervening 15 years to take us from a situation of over-supply in many locations to today’s crisis of affordability? At the most basic level, demand must have grown much faster than supply, pushing up prices. But is that demand a symptom of the numbers of households seeking housing, or of the amount of money available to be spent on housing?

The impression conveyed by advocates of a house-building crusade is that the construction of new homes has not kept pace with the increase in population and the number of households. This is incorrect, at least up to the date of the last census in 2011. Between 2001 and 2011, according to government figures, the average annual increase in households is estimated to have been 158,000 while an average of 161,000 new dwellings per year were built.⁵ The campaigning website *Positive Money* states that in the ten years up to the financial crisis of 2007/8 we built three new homes for every four new people — more than enough for all the new people to live in.⁶



For decades the Tory and Labour parties have vied with each other to build more houses, yet prices have risen exponentially. In the 1940s the average household spent around a tenth of its income on accommodation. By the 21st century that figure had increased to a third of household income (despite the enormous rise in female labour).

Part of the reason for building more houses than were actually needed was the fact that the projected increase in the number of households turned out to be overestimated by a factor of 20 percent. There were a million fewer single person households than anticipated: “About one fifth (200,000) was probably due to more adult sons and daughters living with their parents. However this was far from being the sole cause.”⁷

Moreover, not only have we been building a sufficiency of new homes, we have been adding to the ones we already have, with loft conversions, extensions etc. So now there are more rooms per person than ever before, with more than enough to allow everyone to have a spare bedroom.⁸



Photo found in a skip

"I want one of those when I grow up!" The gulf between aspiration and affordability has widened since the 1960s when this photo was taken.

Spare Space

The major issue is not the amount of housing relative to the number of households but its distribution. Some people are "house rich" with far more space than they need, while others struggle to find a home that they can afford. The English Housing Survey for 2013-2014 shows that half of all owner-occupiers were under-occupying their home — defined as having two or more rooms above the bedroom standard.⁹ By contrast just 15 percent of private renters and 10 per cent of social renters were underoccupying. The same survey shows three per cent of all homes to be overcrowded: one per cent of owner occupied homes, five per cent of privately rented and six per cent of social rented housing.

Not only do some people have a great deal of space in their home, but they have a second property as well that is not being lived in by someone else. In 2012/3 the English Housing Survey found 752,000 second homes — about three per cent of the 22.6 million homes in England. While this may not seem like a large figure, in some communities the impact of second homes is significant, raising the price of homes above the reach of those on local wages. The number of second homes is scheduled to increase to nearly one million by 2031.¹⁰

Other homes are not being used at all, with just over 635,000 homes empty at any one time — 216,000 of those for more than 6 months. The total number of empty homes is over ten times the number of homeless households placed in temporary accommodation.¹¹ Other homes are empty for shorter periods of time, most significantly in the private rented sector, where short term tenancies often require people to move frequently. In the final quarter, privately rented homes were typically empty for 2.6 weeks in the year — five per cent of the time. This is equivalent to 220,000 empty properties.

Housing as Investment

There are few grounds for attributing the current high cost of housing to an absolute shortage of homes. Effective demand in the housing market is not a function of the number of households seeking homes, but of the amount of money available to purchase housing. Prices have risen since the mid-1990s because the available amount has risen substantially. Two factors have contributed to this: an increase in the attractiveness of investment in housing, compared to alternative investments; and a growth in the availability of credit, resulting from the securitization of mortgage debt.

The stage was set by the deregulation of the private rental sector, and the abolition of the "fair rents" scheme, through the Housing Act 1988. Under this Act, by 1997 all new private tenancies were, by default, assured shorthold tenancies, which — when the tenancy expires, or with the appropriate notice period — provide landlords with the power to repossess without needing to provide a reason.

These legal changes enabled the explosion of the buy-to-let phenomenon over the following two decades. The buy-to-let mortgage was introduced in 1996: unlike people buying a property to occupy it themselves, buy-to-let landlords (until 2017) can offset their mortgage interest against the income they receive for tax purposes, and most take out interest-only mortgages on the expectation of paying off the capital when they sell the property.¹² A study published in April 2015 suggests that investors in buy-to-let have reaped massive returns, gaining on average 1,400 percent since 1996 — four times more than equivalent investments in commercial property, government bonds or shares.¹³ These profits have been subsidised by taxpayers' money, insofar as unaffordable rents have been met by housing benefit payments.

The enthusiasm for investing in rental property has been fuelled by a corresponding decline in faith in other more conventional forms of investment. The stock market by February 2015 had

only just recovered to its peak of the end of 1999, just before the dot.com bubble burst, and has now fallen back to below that peak. One commentator has concluded that “the total real return of the FTSE 100 over this period is only negligibly different from zero”.¹⁴ A stagnant stock market and low interest rates have reduced returns to pension funds. Low interest rates to savers, particularly since 2008, mean that many people’s savings have lost value in the face of inflation. All these facts have led to people regarding housing as their preferred secure long term investment.

Meanwhile the banks have been equally willing to lend money for house buying. In the UK, 97 per cent of the money in circulation is created by banks lending money that otherwise would not exist.¹⁵ In the 40 years up to 2009, banks increased the amount of money in the economy by an average of 11.5 per cent a year, which is 3.1 per cent a year over what is required to offset inflation and reflect the increase in GDP.¹⁶ In 2011, 65 percent of this money was invested in the property market, and 20 percent in financial institutions, with only 15 percent going into the rest of the economy¹⁷ — with the result that the value of property has risen faster than other sectors of the economy.

The bubble burst with the credit crunch of 2007/8. Sharp falls in house prices followed, and mortgage lending plummeted. The government responded firstly by lowering interest rates, which bolsters house and land prices by reducing the attractiveness of alternative investments; and secondly by introducing more money into the economy through the bond market (quantitative easing). It is likely that much of this money has been invested in housing, helping to drive the skyrocketing prices seen in London.

Why Not Just Build More Homes?

It might be argued that, even though the main cause of the crisis is the amount of money being put into housing rather than too many households seeking too few homes, increasing the rate of housebuilding will surely add to the supply and in the end bring prices down to an affordable level. In theory, yes. However it is uncertain how many homes would need to be built and there are considerable risks and costs.

(i) Will New Housing Go into the Right Hands?

Building new homes doesn’t necessarily mean homes for those who need them. Given the huge inequalities in wealth, the market is more likely to furnish more second homes for some UK residents, and investment opportunities for wealthy foreigners looking for a safe haven for their money, than to provide homes for people in need. To make housing more affordable, new housing developments would have to reduce house prices in their local area. But a recent study by the LSE which looked at eight large new developments built in the last five years, found that prices in the local area did not fall after completion, and in some cases they went up.¹⁸

(ii) The Risk of Market Collapse

On the other hand there is a danger of overshooting by building too many dwellings. The recent history of low demand areas such as the north west of England, and the spectre of abandoned newly-constructed housing in Ireland and Spain after the crash of 2008, should serve as a warning. House prices in Ireland started to fall before the banking crisis and it is likely

that those falls contributed to the crisis in Ireland. By 2010 the price of residential property in Dublin had fallen by more than 56 per cent and there was a glut of empty and unsold property — “ghost estates” of newly built houses.

(iii) Environmental Costs

The carbon footprint of building a new two bedroomed house has been calculated at 80 tonnes (over eight times a UK citizens’ current average annual footprint, which has to be reduced by 80 per cent by 2050).¹⁹ This direct carbon cost of building new homes is only the tip of the iceberg. New homes need maintaining, as does the infrastructure associated with them: streets, lighting, electricity, sewers, gas and telecommunications etc. They need to be kept warm or cool. And every new house requires carpets, curtains, furniture, electric goods and endless other items. New houses are likely to increase the amount of car transport; and they can destroy valuable countryside or wildlife rich brownfield sites.

Every £1 spent on housebuilding is said to generate £1.40 across the economy as a whole.²¹ The multiplier effect that building new homes has on other goods and services is of course the underlying reason why those who want to increase economic growth want to build more. If a government’s objective is to stimulate economic growth through housebuilding then it has an incentive to manage the economy so that the rich continue to cream off a disproportionate share of the housing stock, while demand for housing lower down the social ladder is never satisfied.

Solutions

There are many different ways in which the crisis of housing affordability and its underlying causes can be tackled without embarking on a risky and unsustainable house building bonanza. We have listed in the box on the next page the main measures that could be taken.

Just as the looming crisis in the health service requires changes in other policy fields such as transport and food, solving the housing crisis requires more than just addressing the areas normally covered by housing policy. Housing needs to be seen in the context of investment policies, the creation and distribution of money, and regional and generational inequalities. Changes to the benefits system, tax and investment policies, credit controls and regional planning can all play a part. Probably the most important key to achieving a long term solution is to redirect the flow of money currently going into private housing and channel it into more productive investments, in particular those needed to address climate change and reduce dependency on fossil fuels.

Reliance on the market has manifestly failed to provide homes that ordinary people can afford. Overleaf we offer a menu of common-sense steps that can be taken to ensure a stable supply of genuinely affordable homes that will reduce inequality,

This article has been drawn from a 38-page report *Tackling our Housing Crisis: Why Building more Houses will not Solve the Problem*, by Tom Chance, Anne Chapman and Maya de Souza, a Green House Publication, 2015, available from www.green-housethinktank.org

How to Provide Genuinely Affordable Housing

(i) Make Better Use of Housing Stock

- Bring empty homes back into use, for example through the use of Empty Dwelling Management Orders EDMOs, which allow local authorities to requisition and rent out properties which have been empty for two years and are causing a nuisance. Just 17 EDMOs were issued in 2014. The time a property needs to have been empty should be reduced to six months and the requirement to prove nuisance removed.

- * Crack down on second homes, by charging higher council tax, or making second homes a separate use-class that requires planning permission.

- Encourage more house sharing through tax incentives, changes to the benefit system, and promoting the recently increased £7,500 tax exemption for renting out spare rooms.

- Decriminalise squatting of empty property.

(ii) Rent Control

Fair rent control, removed in the 1980s by Thatcher, must be reinstated, thus curbing the buy-to-rent phenomenon. Since rent controls can reduce the incentive to rent out property, it is important at the same time to provide local authorities with more powers to take over empty properties and ensure they are used, as outlined above.

(iii) Alternative Investment Options

At the same time as reducing the attractiveness of investment in buy-to-let property by better regulation of the private sector, it is necessary to increase the attractiveness of other socially beneficial forms of investment. Instead of privatizing the Green Investment Bank, the government could raise money for investment in renewable power and energy efficiency measures, by issuing bonds through it that guaranteed a decent rate of return to the general public (see illustration below).

(iv) Property and Wealth Taxes

Current taxation on property is highly regressive and needs to be revised so as to redistribute wealth rather than concentrate it.

- Council tax needs to be reformed. At present occupiers of B and A houses (the lowest value) pay a much higher percentage of the value of their house in council tax, than do occupiers of Bands G and H houses, the top bands. It should be a property tax, charged as a percentage of the value of the property, payable by the owner rather than the occupier.

- At present the capital gains made on the increased value of residences are exempt from tax. Removing this exemption, and compensating by abolishing stamp duty, which is paid by purchasers, would shift the tax burden onto those who have gained from the property market, and away from those struggling to get into it.

- Inheritance tax is easily avoided by those able to afford tax advice. The Green Party advocates reforming inheritance tax so that it applies not to the estate of the deceased, but to those receiving an inheritance.

The rate would depend upon the income and wealth of the recipient. This would encourage rich people to distribute their wealth more widely, and to the less wealthy.

(v) Deter Foreign Investors

The housing crisis in London is exacerbated by foreign investors driving up prices. Making London less attractive for them will be an essential part of tackling London's housing crisis. This could involve:

- The ending of non-dom tax status, under which tax does not have to be paid on income from abroad;

- Reform of the City of London, to increase its transparency and curtail its capacity to shelter foreign money.

(vi) Rebalance Regional Economies

Despite all the foreign investment, London and the South East also receive more than their fair share of government spending. For example in 2012-3 the government spent £69 per person on arts and culture in London, and just £4.60 elsewhere. There is a surplus of housing in many other parts of the country and investment in employment, arts, transport etc should be focussed on these regions.

(vii) Control Credit

The amount of credit that can be extended to fund mortgages needs to be controlled to prevent another housing bubble. Even better might be the removal of the ability of private banks to create money.

(viii) More Affordable Homes

Providing more homes where rents are affordable relative to local incomes is the obvious solution to a crisis in which housing has become unaffordable. A big increase in the number of homes with affordable rents and secure tenancies will act as competition to force private rents down, especially if accompanied by better regulation of the private sector.

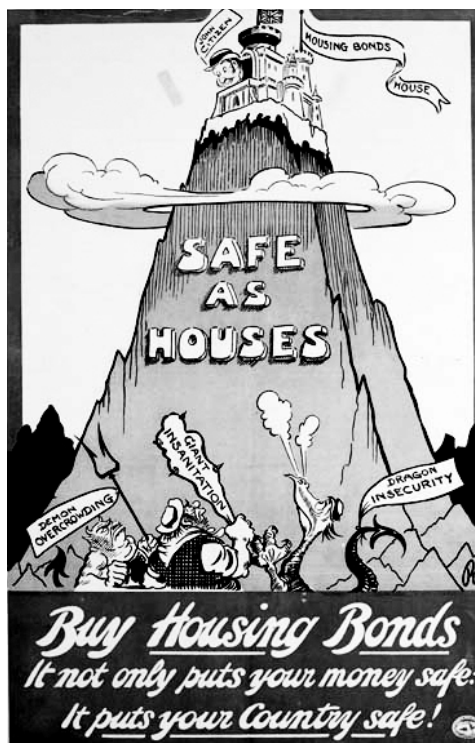
- End right-to-buy, and prevent its proposed extension to housing association properties.

- Councils should be allowed to borrow sufficient money to build affordable homes, and housing associations should be provided with the necessary funding as grants, in order to replace the homes that in the past have been sold off through the right-to-buy policy.

- The Scottish Mortgage to Rent Scheme, under which a social landlord can buy the home of someone in mortgage arrears, so they can continue living in it, should be extended to the rest of the country.

- * Agricultural tied dwellings that are no longer required for agriculture should become affordable rural housing rather than market housing.

- New private housing should be incentivised through the planning system and other mechanisms to provide affordable and socially beneficial developments such as co-housing, passive housing, low impact rural housing and reuse of derelict sites.



A 1919 advertisement inviting the public to buy bonds that were used to fund London County Council housing schemes. Could this be a model for investment in energy efficient social housing projects today?