Chapter 3

Private housing

In the eyes of the voting public in 2017, improving the housing situation remains a vitally important issue so it is no wonder that politicians continue to give it major attention. Indeed prime minister Theresa May highlighted it in her statement on the steps of No. 10 in July and again in her party conference speech in October 2016:

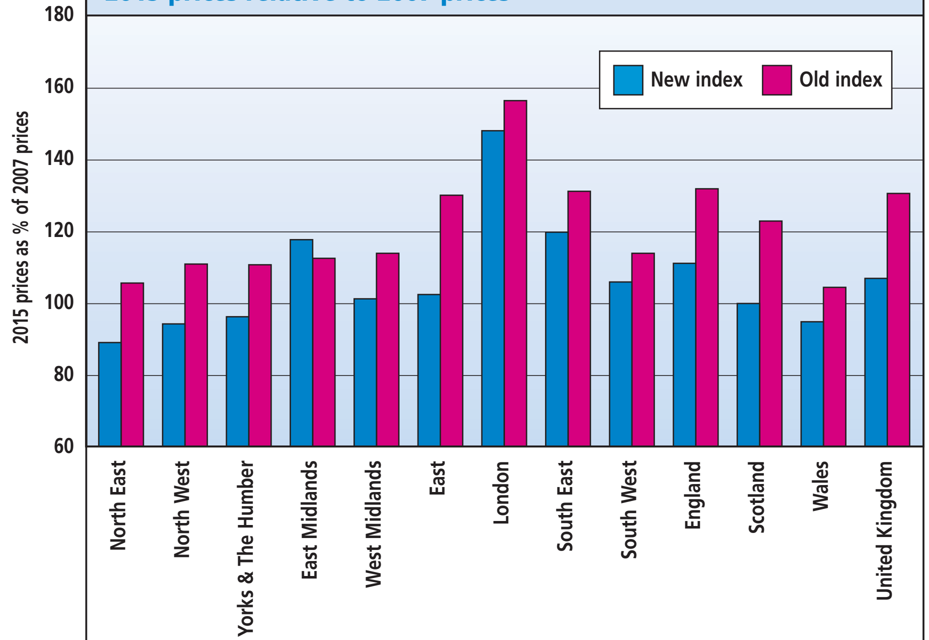
> *And it's just not right that the housing market continues to fail working people either. Ask almost any question about social fairness or problems with our economy, and the answer so often comes back to housing. High housing costs – and the growing gap between those on the property ladder and those who are not – lie at the heart of falling social mobility, falling savings and low productivity. We will do everything we can to help people financially so they can buy their own home. That's why Help to Buy and right to buy are the right things to do. But as Sajid* [the Communities Secretary] *said in his bold speech on Monday, there is an honest truth we need to address. We simply need to build more homes. This means using the power of government to step in and repair the dysfunctional housing market.*

The scale of the challenge?

Steady house-price growth across the UK has brought prices in some areas back up to where they were in 2007, while in other typically more pressured areas prices moved ahead quite strongly (see Figure 2.3.1; here and generally in the chapter nominal prices are used). However, a combination of stamp duty changes and the Brexit vote resulted in a slowing of activity and of price inflation in later 2016, a trend likely to continue into 2017 (see Contemporary Issues Chapter 1).

Despite the challenges posed by Brexit, put simply affordability pressures are biting, at least in terms of rents and deposits. The *UK Housing Review* Affordability Index (Table 2.3.1) and regional mortgage cost-to-income ratios (Table 2.3.2) would suggest that access to the market is now much easier for first-time buyers (FTBs) than it was in 2007. But of course these are based on mortgage costs and reflect very low interest rates; expressed in terms of house prices and necessary deposits, the picture would look very different. The latest Halifax survey notes that the average deposit paid is now over £32,000 across the UK and £100,000 in London.[1]

Figure 2.3.1 **Old and new ONS mix-adjusted house price indexes: 2015 prices relative to 2007 prices**



The ONS has created a new house price index which is both more fully mix-adjusted and more robust than the previous one (Figure 2.3.1 compares the outturn for both by region). However the market still has quite divergent measures of prices. Indeed in a period when central London house prices have fallen, the new ONS index is, for complex technical reasons, reporting price rises for the UK of ten per cent plus, compared to around four per cent in other indexes.

Source: ONS mix-adjusted house prices for all dwellings.

The government has recognised the growing deposit gap and put in place both the Help to Buy equity loan scheme (for new build homes) and the Help to Buy mortgage guarantee scheme. The latter, now ended, was designed to help re-open the high loan-to-value (LTV) market and this was achieved,[2] even though the proportion of higher LTV loans is still well below what it was in 2007 (see Table 2.3.3). With wage growth among the bottom quartile of earners slower than house price inflation, this is a problem which is not going away quickly.

Table 2.3.1 The *UK Housing Review* Affordability Index

Based on mortgage costs for first-time buyers and average incomes for all working households

Country/Region	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
United Kingdom	100.0	95.5	94.6	112.5	118.8	119.6	135.7	126.8	140.2	141.1	183.9	181.3	179.5	200.9	178.6	137.5	143.8	143.8	158.0	152.7	166.1	162.5
North East	100.0	93.7	93.7	107.4	113.7	110.5	118.9	100.0	114.7	123.2	186.3	177.9	171.6	190.5	170.5	137.9	134.7	134.7	144.2	136.8	142.1	135.8
North West	100.0	90.9	87.9	103.0	108.1	106.1	123.2	117.2	127.3	123.2	176.8	180.8	180.8	192.9	170.7	136.4	133.3	127.3	134.3	130.3	136.4	133.3
Yorkshire and The Humber	100.0	98.0	96.9	109.2	113.3	110.2	125.5	109.2	130.6	126.5	179.6	183.7	187.8	204.1	186.7	149.0	148.0	137.8	142.9	135.7	140.8	166.3
East Midlands	100.0	94.0	93.0	110.0	113.0	110.0	122.0	114.0	136.0	141.0	192.0	191.0	188.0	220.2	189.4	140.4	143.6	131.0	143.0	134.0	140.0	138.0
West Midlands	100.0	92.2	88.8	100.0	101.7	100.9	112.1	112.1	130.2	125.0	160.3	159.5	154.3	169.0	150.0	122.4	130.2	124.1	129.3	119.8	126.7	123.3
East	100.0	99.1	100.9	120.7	127.9	123.4	146.8	143.2	160.4	153.2	192.8	184.7	176.6	200.9	182.0	136.9	141.4	141.4	155.0	146.8	154.1	155.9
London	100.0	94.6	93.1	113.1	123.1	135.4	146.2	136.9	143.1	145.4	186.9	177.7	178.5	200.8	181.5	137.7	156.9	167.7	193.1	192.3	214.6	210.8
South East	100.0	93.5	93.5	110.5	118.5	112.1	134.7	133.9	147.6	148.4	185.5	173.4	172.6	191.1	169.4	127.4	137.9	131.5	141.1	133.9	150.8	150.8
South West	100.0	97.4	98.3	121.7	123.5	125.2	143.5	136.5	167.8	163.5	211.3	200.0	192.2	213.9	188.7	144.3	148.7	139.1	150.4	142.6	154.8	151.3
England	100.0	93.9	93.0	110.4	116.5	117.4	134.8	127.8	140.9	142.6	187.0	180.9	178.3	199.1	177.4	136.5	143.5	142.6	157.4	153.0	167.0	164.3
Wales	100.0	85.6	89.2	101.8	106.3	106.3	114.4	111.7	127.0	118.0	171.2	173.0	168.5	174.8	154.1	118.0	120.7	118.9	127.9	118.0	117.1	110.8
Scotland	100.0	102.0	101.0	120.2	123.2	116.2	119.2	114.1	124.2	108.1	149.5	152.5	155.6	177.8	157.6	126.3	117.1	125.3	133.3	120.2	125.3	121.2
Northern Ireland	100.0	132.0	140.0	168.0	176.0	176.0	196.0	178.7	188.0	181.3	218.7	236.0	260.0	356.0	290.7	208.0	192.0	174.7	165.3	153.3	162.7	169.3

Source: Computed from Regulated Mortgage Survey mix-adjusted house prices for first-time buyers and household earnings data from the Living Costs & Food Survey.
Note: Mortgage costs assume a constant 82% mortgage-advance-to-house-price ratio, in line with the average over the period. They are based on average mortgage lender rates for new mortgages in the last quarter of the year, and assume a standard 25-year repayment mortgage.

Table 2.3.2 Mortgage cost-to-income ratios

Based on first-time buyer house prices and average incomes for all working households

Country/Region	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
United Kingdom	11.2	10.7	10.6	12.6	13.3	13.4	15.2	14.2	15.7	15.8	20.6	20.3	20.1	22.5	20.0	15.4	16.1	16.1	17.7	17.1	18.6	18.2
North East	9.5	8.9	8.9	10.2	10.8	10.5	11.3	9.5	10.9	11.7	17.7	16.9	16.3	18.1	16.2	13.1	12.8	12.8	13.7	13.0	13.5	12.9
North West	9.9	9.0	8.7	10.2	10.7	10.5	12.2	11.6	12.6	12.2	17.5	17.9	17.9	19.1	16.9	13.5	13.2	12.6	13.3	12.9	13.5	13.2
Yorkshire and The Humber	9.8	9.6	9.5	10.7	11.1	10.8	12.3	10.7	12.8	12.4	17.6	18.0	18.4	20.0	18.3	14.6	14.5	13.5	14.0	13.3	13.8	16.3
East Midlands	10.0	9.4	9.3	11.0	11.3	11.0	12.2	11.4	13.6	14.1	19.2	19.1	18.8	20.7	17.8	13.2	13.5	13.1	14.3	13.4	14.0	13.8
West Midlands	11.6	10.7	10.3	11.6	11.8	11.7	13.0	13.0	15.1	14.5	18.6	18.5	17.9	19.6	17.4	14.2	15.1	14.4	15.0	13.9	14.7	14.3
East	11.1	11.0	11.2	13.4	14.2	13.7	16.3	15.9	17.8	17.0	21.4	20.5	19.6	22.3	20.2	15.2	15.7	15.7	17.2	16.3	17.1	17.3
London	13.0	12.3	12.1	14.7	16.0	17.6	19.0	17.8	18.6	18.9	24.3	23.1	23.2	26.1	23.6	17.9	20.4	21.8	25.1	25.0	27.9	27.4
South East	12.4	11.6	11.6	13.7	14.7	13.9	16.7	16.6	18.3	18.4	23.0	21.5	21.4	23.7	21.0	15.8	17.1	16.3	17.5	16.6	18.7	18.7
South West	11.5	11.2	11.3	14.0	14.2	14.4	16.5	15.7	19.3	18.8	24.3	23.0	22.1	24.6	21.7	16.6	17.1	16.0	17.3	16.4	17.8	17.4
England	11.5	10.8	10.7	12.7	13.4	13.5	15.5	14.7	16.2	16.4	21.5	20.8	20.5	22.9	20.4	15.7	16.5	16.4	18.1	17.6	19.2	18.9
Wales	11.1	9.5	9.9	11.3	11.8	11.8	12.7	12.4	14.1	13.1	19.0	19.2	18.7	19.4	17.1	13.1	13.4	13.2	14.2	13.1	13.0	12.3
Scotland	9.9	10.1	10.0	11.9	12.2	11.5	11.8	11.3	12.3	10.7	14.8	15.1	15.4	17.6	15.6	12.5	12.3	12.4	13.2	11.9	12.4	12.0
Northern Ireland	7.5	9.9	10.5	12.6	13.2	13.2	14.7	13.4	14.1	13.6	16.4	17.7	19.5	26.7	21.8	15.6	14.4	13.1	12.4	11.5	12.2	12.7

Sources and Notes: As Table 2.3.1.

Table 2.3.3 **High loan-to-income and loan-to-value ratios as a percentage of all mortgage advances**
Percentages

	2007 Q 4	2008 Q 4	2009 Q 4	2010 Q 4	2011 Q 4	2012 Q 4	2013 Q 4	2014 Q 4	2015 Q 4	2016 Q1	2016 Q 2	2016 Q 3
Loan-to-income ratios												
Single income: in excess of 4:1	**25.7**	**21.3**	**24.8**	**25.9**	**27.0**	**28.3**	**31.8**	**30.1**	**33.2**	**32.1**	**32.4**	**34.1**
Multiple income: in excess of 3:1	**48.8**	**42.0**	**46.0**	**46.3**	**48.6**	**48.5**	**52.8**	**50.6**	**57.2**	**56.2**	**57.4**	**58.8**
Loan-to-value ratios												
Between 90-95%	**8.8**	**5.1**	**1.0**	**1.7**	**1.6**	**2.0**	**2.0**	**4.2**	**3.7**	**3.3**	**4.5**	**5.1**
Over 95%	**6.1**	**1.3**	**0.6**	**0.6**	**0.4**	**0.4**	**0.4**	**0.3**	**0.1**	**0.1**	**0.2**	**0.2**
All over 90%	**14.9**	**6.4**	**1.5**	**2.3**	**2.0**	**2.3**	**2.4**	**4.4**	**3.8**	**3.4**	**4.7**	**5.3**

Source: FSA & FCA MLAR Statistics. Note: Percentages for loan-to-income ratios are based on all cases with recorded ratios, and are percentages of the loans to those with single and multiple incomes respectively.

Table 2.3.4 **Percentage differences in median house prices, 2015 compared with 2007**

Region	1 bedroom	2 bedrooms	3 bedrooms	4 bedrooms	5 bedrooms or more	All sizes
North East	-9.6	-3.9	-0.4	-2.7	0.0	-1.5
Yorkshire & The Humber	-3.1	-3.8	-0.7	0.0	-2.3	-1.2
North West	4.0	-0.9	0.0	2.1	-4.1	0.1
East Midlands	1.6	2.1	4.7	4.8	2.9	4.2
West Midlands	3.9	3.2	5.2	6.0	0.6	4.8
East	16.0	15.8	20.0	17.6	11.1	17.5
London	50.0	48.5	51.4	43.2	35.7	46.7
South East	20.0	18.9	21.2	19.7	14.5	19.4
South West	4.2	5.1	7.7	5.2	-2.3	5.2
England	2.4	0.5	2.8	3.2	3.4	15.8
Wales	3.0	-2.0	0.0	-0.9	-4.8	-4.4
Scotland	10.5	4.2	3.9	2.2	2.4	2.5
Great Britain	23.5	13.9	15.3	13.9	10.4	14.2
England excluding London	10.5	7.9	10.0	10.0	5.8	9.2
Great Britain excluding London	10.2	6.9	8.9	8.9	5.1	8.2

Source: RMS house prices. EHS survey data (and Scottish and Welsh equivalents) for owner-occupied stock by size and region.
Note: All sizes, England and Great Britain figures are computed based on a consistent stock basis taking into account regional distribution, and the number of bedrooms within the owner-occupied sector in each region.

Table 2.3.4 highlights the way the price differentials between English regions and between England, Wales and Scotland have moved since 2007 in cash terms, by type of property. Given the expected slowing of the UK economy in 2017 (see Commentary Chapter 1), we would expect to see house prices reflect this. While recognising the huge uncertainty surrounding any predictions for the next year or so most forecasters (but not all) are expecting prices to rise by somewhere between one and three per cent but of course with huge regional and local variations. Similarly in terms of transactions and mortgage volumes, the CML has suggested transactions will fall to 1.17 million from 1.24 million while gross mortgage lending will remain roughly the same (£248 billion compared to £246 billion in 2016).[3]

A private housing market?

The private market is now the recipient of billions of pounds of government support and in some senses the distinction between public and private has become harder to maintain. We assume much of this support will cease over the next five years but there are those who argue that it should now be a permanent feature of the housing landscape. Table 2.4.1 (see page 80) provides an up-to-date picture of the main grant, loan and guarantee arrangements in place: in round figures, of the £51 billion which government is planning to invest in housing over the period to 2020/21, some 84 per cent helps underpin the private market. Of course we would also need to add housing benefit payments which flow in part to private sector landlords, support for mortgage interest payments and council tax rebates, and more contentiously inheritance tax and capital gains tax relief (see both Table 2.6.1 on page 106 and Compendium Table 121). It is a private market in that the transactions are unmediated by the state, though even here we now have an ever more regulated (and to a degree financially supported) mortgage market, a government-backed housebuilding industry and increasingly a regulated private rental market, not least in Scotland and Northern Ireland.[4]

The expansion of the private rental market across the UK is one of the striking features of this century and there is little to suggest this has completely run its course, though the growth trajectory has been lowered. Over the last two years the government and the Bank of England have taken a variety of steps to curb the expansion of the buy to let segment of the market. These include:

- phasing out of the deductibility of mortgage interest at higher rates of income tax over the period 2017-2020
- limiting claims for wear and tear to what was actually spent rather than based on a notional amount
- stamp duty changes – an extra three per cent charged on second homes and buy to let purchases
- no reduction in capital gains tax for investment property when rates were lowered for other forms of investment in the March 2016 Budget, and
- income-tax now charged on gross rather than net income after deductions, so some landlords have moved into higher-rate tax brackets.

The government indicated it was making these changes to curb the BTL sector in order to rebalance the market in favour of homeowners.[5] A CML update of a 2004 study into this sector shows that the majority of landlords will not be immediately affected by the mortgage interest tax changes because they are mortgage-free and do not intend to purchase more rental property.[6] Somewhat ironically given the overwhelming desire by government to professionalise the sector, those most affected are the more 'professional' landlords: those with sizeable portfolios who are more likely to transact (and therefore will be exposed to higher stamp duty land tax and capital gains tax along with BTL mortgages). The report suggests around a quarter of BTL landlords will be negatively affected by the change in mortgage tax treatment (and we assume there will be fewer new entrants). The RICS recently reported a decline in sales of buy to let properties since the stamp duty changes and that 86 per cent of landlords say they have no plans to increase rental portfolios this year.[7]

Alongside government actions were those by the Bank of England's Financial Policy Committee (FPC) on being granted powers of direction over this market (in LTV and income-cover ratio (ICR) limits, paralleling those in the owner-occupied market).[8] The Prudential Regulation Authority also imposed an interest-rate stress test and the Basel Committee plans (subject to international negotiation) to rework the capital requirements regime around investment property. Put together we have seen a substantial and ongoing tightening on the BTL sector in 2016, the full impacts of which will play out over the next five years. Lenders have been tightening affordability criteria ahead of these different changes coming into effect (stress test in January 2017; interest tax-relief changes in April 2017) and not surprisingly the latest CML forecast is for BTL lending to fall.[9]

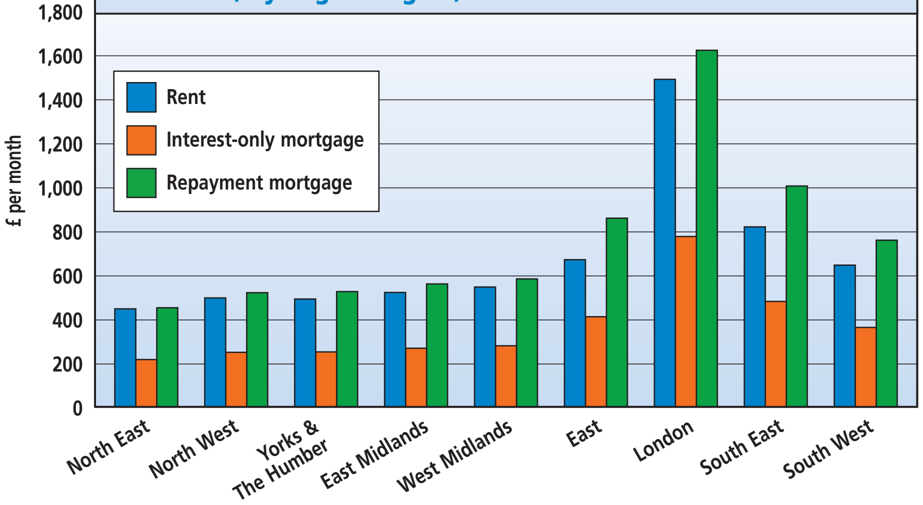
In reality only about a third of the PRS market is funded via BTL mortgages, another third of buyers use cash or inherit the property while the remaining third use commercial loans. There is a growing institutional investment-backed PRS funding the creation of new apartment blocks.[10] During 2015 it was estimated some £2.65 billion of funds went into the sector.[11] The government backed this market with the build to rent fund and guarantees. The 2017 white paper *Fixing our broken housing market* now proposes to encourage lengthier tenancies, new 'affordable private rents' and to include build to rent in the National Planning Policy Framework.

There is no suggestion at this stage that this new market will take over and revolutionise the mainstream rental market, which seems likely to remain dominated by small private investors who have bought existing properties, as in most other countries. Indeed the fact that the PRS is now in play in political and policy terms is of some concern for institutional investors as much as for the small investor, because they are committing substantial funds for the long term in order to fund other liabilities, e.g. pension payments. Such uncertainties are unhelpful from an investment perspective.

According to the latest ONS experimental index of private housing rental prices in Great Britain, PRS rents rose by 2.3 per cent in the twelve months to October 2016 (up by 2.5 per cent in England, down by 0.2 per cent in Scotland and up by 0.4 per cent in Wales). Over the year, rents increased in all the English regions with the biggest rise in the South East (3.4 per cent). The latest RICS survey suggests tenant demand is rising faster than supply with rent expectations remaining firmly positive (though London was reported as having a continuing decline in tenant demand with rent expectations in negative territory for the fifth consecutive month).[12]

Interestingly, despite these policy moves, most forecasts suggest the English private rented sector will continue to grow in both numerical and proportional terms.[13] The recent Oxford Economics report accompanying the Redfern Review highlights the challenges for any alternative, i.e. the homeownership sector, given credit constraints and low wage growth.[14] Indeed, the RICS has estimated that 1.8 million new rental homes are needed by 2025 to keep up with current demand.[15] The growth trajectory may have been lowered by all the policy changes but of course savings rates remain low and landlords still benefit from having access to interest-only mortgages, unlike most first-time buyers. The advantages landlords enjoy in the mortgage market are – as usual in the *Review* – shown in Figure 2.3.2.

Figure 2.3.2 **Repayment and interest-only mortgage costs compared with rents, by English region, 2015**



Sources: RMS House Prices; VoA Rents 2015. Note: Median prices for two-bed dwellings.

A footnote to discussion of the PRS is that new data from the English Housing Survey show a sharp rise over the last 20 years in the proportion of tenancies that are assured shortholds (from 42 to 81 per cent). They also show a decline in assured tenancies (from 18 to just three per cent) as well as an expected decline in older regulated tenancies, to less than one per cent. The proportion of tenants who have the (much less secure) assured shorthold tenancy is therefore double what it was before it was made the default tenancy type in England in the Housing Act 1996.

A sober reflection?

Housing problems are deep-seated, particularly for those who are in work but struggling to meet high housing costs, whether as owners or renters. This issue has been the focus of a number of recent reports. NHF's *The Coping Class* suggests around one in six households are 'just coping' and most have a before-tax household income at the national average or below.[16] Significantly high housing costs have drawn in households earning above the national average who are still struggling – estimated at around 1.5 million of the five million categorised in the report.

The fourth annual *State of the Nation* report from the Social Mobility Commission shows that owning a home was out of reach for ever more young people, noting that in the last ten years the number of under-25 year-old homeowners has more than halved as wages have fallen and house prices have risen.[17] It argues that the contribution of the Help to Buy schemes has been undermined by high house prices. The commission recommends the government to refocus its Starter Homes on households with around average incomes and ensure that, when the original beneficiaries sell, the discount is passed on to low-income purchasers. It wants more radical action on housing supply, first by setting a target of three million new homes by 2026, second by challenging the dominance of a small number of housebuilders who it says have strong incentives to limit supply and so inflate prices. The commission argues that market failure must be addressed by bringing the public sector back as a major provider (while at the same time enhancing security of tenure in the PRS).

The *Redfern Review into the Decline of Home Ownership*, published in November 2016, highlights the 6.2 percentage point decline in homeownership between 2002 and 2014 with the biggest contribution to this (explaining well over half of the decline in the modelled assessment) arising from tighter first-time buyer credit constraints, with house-price inflation pre-2007 and the decline in real incomes of FTBs adding to the mix.[18] Redfern suggests the decline has stabilised and that policy should now be targeted more closely on FTBs, along with regional caps on eligibility for assistance. In recommending 'decades of consistent supply improvement' it acknowledges that supply does not quickly impact on prices or on homeownership levels.

Redfern clearly takes the view that housing problems (and solutions) span tenures. The new government's recent shift towards a more balanced approach has been widely welcomed and we expect to see the housing white paper consolidate this stance (although our summary of investment programmes in Table 2.4.1 shows only a modest shift from 13 to 16 per cent in the proportion aimed at affordable housing, since our previous assessment in June 2016).

The underlying supply and demand imbalance remains a key factor. The economic impact of Brexit will play out over the next decade and beyond, although in the short term any stimulus measures put in place may help sustain the housing market. There is a tendency to view England as the epicentre of these tensions and clearly it is the UK country with the biggest mismatch between supply and demand. It is also evident that homeownership has been falling not just in the most expensive areas of London and the South East but also in wide swathes elsewhere.[19] Indeed as the recent Northern Ireland *Housing Market Review and Perspectives 2015-2018* makes clear it too had experienced a sharp fall in the proportion of homeowners (even though in number terms they remain much the same).[20]

Housebuilding

As is evident from Commentary Chapter 2, output of new homes has been increasing albeit it is still well below any accepted view of what is required on an annual basis in England. This is not the case for Wales or Northern Ireland, however, and Scotland is getting closer to meeting its requirements.

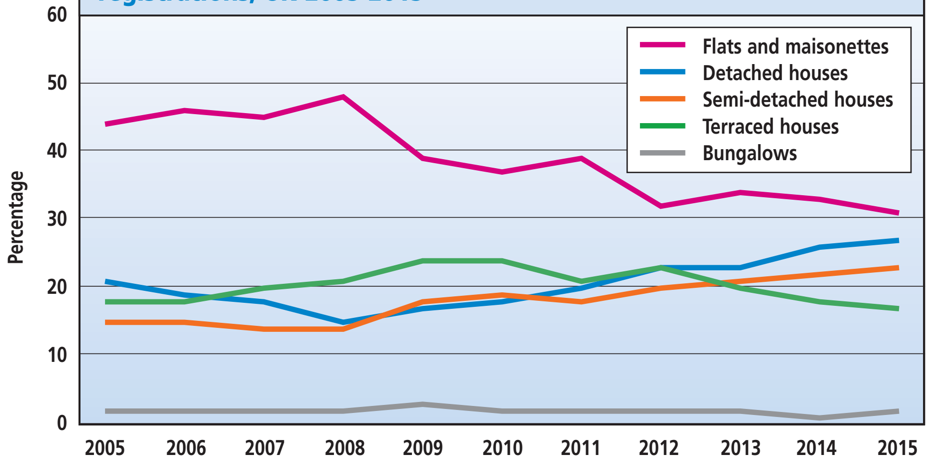
The mood music around housebuilding is changing. In a speech about housing supply challenges at the NHBC (24 November) the Secretary of State for Communities and Local Government, the Rt Hon Sajid Javid, MP said;

> *I've seen a lot of you nodding while I laid much of the blame at the government's door. Now we get to your door! Because this is the bit where I say that house builders, particularly the big market leaders, also bear some of the responsibility...*
>
> *If you want us to pull out all the stops to create the sites, you have to build on them. The permission gap has to come down. The build-out rate has to go up. I was delighted to see the Home Builders Federation announcing plans to publish build-out rates. When that happens it will bring some much-needed transparency to the system.*

Javid is leading a cross-Whitehall task force on housing supply and he clearly expects both government and industry to deliver; this was reinforced in the January housing white paper with encouragement of completion from other providers, including small and medium enterprises. Output has been rising and clearly that must continue in order to deliver what is needed – Brexit or no Brexit. This is a considerable challenge for all those involved whether private housebuilders (large or small), housing associations or local authorities.

And of course it is not total supply alone that matters, but how it is made up by type, region and country. Drawing from NHBC registration data, Figure 2.3.3 shows that since the GFC there has been a sustained decline in the number of flats and maisonettes being built along with a steady rise in the number of detached and semi-detached homes. This pattern will reflect local housing plans but it is also symptomatic of the realities of effective demand, with better-off households able to access mortgages and new homes to a greater extent than those on lower incomes. Clearly Help to Buy has supported the market across all categories although even in this scheme over half of sales were of detached or semi-detached homes.[21] Indeed for some major builders Help to Buy is now supporting around half of their new sales.

Figure 2.3.3 **Percentages of different house types in NHBC registrations, UK 2005-2015**



Source: NHBC New Home Statistics Annual Review 2015.
Note: Based on survey responses relating to private and public sector homes registered for NHBC's ten-year warranty.

The recent House of Lords Select Committee report *Building more homes* highlighted the multi-faceted nature of the housing and housing supply problem in England.[22] It recommended more should be done to ensure land with planning permission is developed (intentions reflected in the Javid speech above, the current Neighbourhood Planning Bill and the housing white paper), though it was clear that simple assumptions as to who might be holding that land were unwise. The current dominance of the major housebuilders and the decline of the medium- to small-sized builders (as well as local authorities as developers) are seen as part of the problem.

It has been too easy to assume the problem starts and ends with the volume builders who themselves have pledged to increase output.[23] A recent Lloyds Bank survey suggested that the average growth forecast over the next five years was 28 per cent as a percent of current turnover, with most housebuilders saying that land was the main focus of their investment.[24] One of the few independent studies of the sector examined the output of the nine largest private housebuilders from 2012-2015 and noted that while output of homes grew by 33 per cent, revenues were up by 76 per cent and profit before tax by nearly 200 per cent.[25] Indeed, over a longer period (2010-15) profits before tax for the top five firms increased by 473 per cent. The authors argue that though output is increasing, returns to shareholders are rising even faster – of course in part a reflection of the downturn years which preceded this period. As is evident from the housing white paper, there is recognition that it is unwise to create a national housing strategy reliant upon a small number of speculative volume builders who for very understandable reasons must focus on their profits and the rate of sales as key metrics, rather than the total number of homes built. However they have been the major beneficiaries of the very substantial sums of publicly funded support put in to help this industry get back up and running after the GFC, and it is evident that the pressures to do more are intensifying. The January white paper proposes that, subject to consultation, builders will be required to report on build-out rates, with more stringent monitoring. Local authorities will also be required to meet a new and possibly onerous 'housing delivery test', while an increase in planning fees will help them to increase their capacity.

Conclusions

The 2017 housing white paper brings together a number of strands and offers a more balanced vision of housing provision than seen previously from this government. Much of what is set out is subject to consultation and further detail but it recognises that there is no single solution but a myriad of adjustments to help ensure the market delivers more. Without doubt England is home to the biggest and perhaps most intractable housing problems in the UK and much of this stems from London as an economic powerhouse and where (in some areas) high incomes, low supply and high house prices intersect. Greater supply is now seen as only part of the answer and that it is a long-term solution at best. The government's efforts to dampen the buy to let market, to open up a debate on downsizing and to increase tax on high-value homes are further ingredients and it is difficult to see it will stop there. The scale of government support to the housing market is now very considerable and yet we are still decades from achieving a balanced market where households have real choices and housing costs and quality are sensibly aligned to incomes. It is likely we will see more experimentation around intermediate housing tenures, reflecting the fact that the ‘squeezed middle’ – a group poorly provided for by the market or the state – has grown and has become a recognised pressure point, of course alongside the homeless and those in the poorest housing.

There will be an expansion of products in this intermediate space although it is clear from the white paper that Starter Homes will be less prominent than before and sensibly government now sees the discount period running for 15 years rather than five. There will be more shared ownership[26] and a much expanded suite of rent to buy type products which are now available across the UK although the scale of demand for them remains unclear. Historically the problem of rental-purchase type structures (overpayment of rent to secure part-ownership) is that the price of the property rose faster than the ability to buy via an enhanced rental payment. Some models fix the price at the outset. In reality many households will stretch budgets to buy in more conventional ways, often assisted by the ‘Bank of Mum and Dad’. Legal and General suggests this ‘family’ bank was the tenth largest funder in 2016 and advanced some £5 billion to assist relatives buy homes.[27]

Trying to turn the tide on homeownership will remain a challenge, especially if and when interest rates start to rise, though stress tests will help ensure most existing owners can cope and the rate of increase is in any case expected to be slow. Preference for homeownership remains strong,[28] but household debt exposure remains high and a rise in unemployment would make it difficult for some households to keep up payments.[29] Homeownership increasingly relies upon two-earner households and that in itself poses challenges regarding family-raising: little wonder then that the average age of first-time mothers is increasing.

One argument is that government interventions have been misplaced, supporting demand and inflating house prices in part through an uncontrolled expansion of credit.[30] A somewhat narrower assessment of different government schemes argues that the rational choice between them comes down to (a) the household’s requirements around dwelling size and location (a key element in affordability) and (b) the schemes’ varying degrees of generosity – the size of the subsidy (or gift) to those entering the scheme (with shared ownership being the least generous and Starter Homes the most).[31]

While affordability and accessibility are at the core of government efforts to support the housing market we cannot ignore the very real transfers of risk that take place when households take on equity loans – which must then be repaid in line with house price inflation – nor the unresolved question for many as to how they will move on from the home that they buy. Much more thought needs to be given to this and other aspects of so-called ‘second stepper’ markets.

With the Bank of England now directly involved via the FPC’s housing market interventions it is possible that some of the potential drivers of market volatility have been removed. However, as touched on earlier, the Financial Conduct Authority’s mortgage market rules only impact upon residential loans and they do not cover, for example, cash purchases and buy to let mortgages. So there is still some potential for prices and activity to run ahead of underlying effective demand and thus expose the housing market once again.

Moreover, as has been evident throughout this chapter, the divisions been public and private are being eroded. At one time we would have seen public sector interventions as part of the counter cyclical ‘buffer’ maintaining market activity and supply when the private sector was lagging. However, with the public sector now ever more involved in market activity in order to generate cross-subsidy to support those non-market interventions, there is also considerable ‘cross-contamination’ with market volatility becoming an ever-greater threat to the finances of housing associations and hence to the delivery of affordable housing (considered in the next chapter).

It raises the whole question of how governments intervene in markets and to what effect. Government and the Bank now have significant roles in supporting and influencing two pillars of the private market – the mortgage market and the housebuilding industry. With interventions likely to increase (in scale and duration) rather than diminish, partly as a consequence of Brexit (and Brexit itself will generate greater complexity), it is becoming ever harder to steer the housing market back towards some kind of ‘normality’ as applied before the GFC or indeed before the preceding housing-market boom, even though the English government at least is promising to ‘fix our broken housing market'.

Notes and references

1 Halifax (2017) *Number of first-time buyers reaches 10-year high*. Press Release, 13 January. Edinburgh: Halifax.

2 See www.cml.org.uk/news/news-and-views/a-government-scheme-that-worked/

3 Jamei, M. (2016) *Market commentary: 2017 and 2018 forecasts*. CML Market commentary, December. London: CML.

4 See the Private Housing (Tenancies) (Scotland) Act 2016; the Northern Ireland Executive has now published a consultation paper setting out proposals for change (see www.communities-ni.gov.uk/sites/default/files/consultations/communities/private-rented-sector-proposals-for-change-consultation.pdf). Also see discussion of devolution in Contemporary Issues Chapter 4 and in 'Developing Devolution' in the *UK Housing Review Briefing Paper 2016*.

5 The scale of support to homeowners is set out in Table 2.6.1 (see page 106).

6 Scanlon, K. and Whitehead, C. (2016) *The profile of UK private landlords*. London: CML Research, CML.

7 This is partly because sales were brought forward to avoid the tax. See RICS (2016) *No easing in supply constraint for now*. UK Residential Market Survey, November. London: RICS.

8 Most lenders have used an income-cover ratio (ICR) of 125 per cent (i.e. the rental income from a property should be at least 125 per cent of the interest payments on the proposed loan) and a maximum LTV of 75 per cent. When the PRA stressed rate of 5.5 per cent is applied it is clear a higher ICR will be needed (of 150 per cent) and thus there will be a lower LTV ratio.

9 See Jamei, M. (2016), *op.cit*.

10 Centre for London (2013) *Institutional Investment in London's Market Rented Sector*. Report for the City of London. London: Centre for London; Investment Property Forum (2012) *Institutional Attitudes to Investment in UK Residential Property*. IPF Short Paper 16. London: IPF; La Salle Investment Management (2015) *The case for UK Private Rented Sector*. London: European Research and Strategy, La Salle IM.

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19 See Resolution Foundation (2016) *The housing headwind: the impact of rising housing costs on UK living standards*. London: Resolution Foundation.

20 NIHE (2016) H*ousing Market Review and Perspectives 2015-2018* (see www.nihe.gov.uk/index/corporate/housing_research/housing_market_review.htm).

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22 House of Lords Select Committee on Economic Affairs (2016) *Building more homes*. London: House of Lords.

23 HBF (2016) *Statement of Intent – House builders share ambition to deliver one million homes* (see www.hbf.co.uk/fileadmin/documents/Policy/Publications/HBF_1_Million_homes_by_2020.pdf).

24 Lloyds Bank Commercial Banking (2016) *Housebuilding Research Report 2016*. London: LBG.

25 Archer, T. and Cole, I. (2016) *Profits before Volume? Major housebuilders and the crisis of housing supply*. Sheffield: Sheffield Hallam University.

26 This market is now well supported by lenders and the government's planned increase will be supported by mortgage finance. See Clarke, A., Heywood, A. and Williams, P. (2016) *Shared ownership: Ugly sister or Cinderella? – The role of mortgage lenders in growing the shared ownership market*. London: CML Research, CML.

27 See www.legalandgeneralgroup.com/media-centre/press-releases/press-releases.asp?newsid=2836

28 Pannell, B. (2016) *Home-ownership or bust? Consumer research into tenure aspirations*. London: CML Research, CML.

29 Bank of England (2016) *Financial Stability Report*, November. London: BoE.

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