4. Local Pathways to Crisis

The last chapter explored the housing crisis's broader economic context. There are important structural reasons why capital has switched into property and housing: new capital pathways, which are now well established, are key drivers of national and local housing stress in many advanced economies. But it is also the case that, over a long period of time, different countries have taken different decisions in relation to the planning and regulation of housing and housing markets. They have also developed their own non-market responses to housing stress, viewing housing as more or less a 'private matter' and developing public responses to shifting patterns of housing need. The purpose of this chapter is to consider different explanations (or 'formulations' – see Chapter 2) of the housing crisis; the local pathways which have led to this point. Those pathways are important because belief in their significance underpins opinion concerning the types of responses that are needed. If housing stress, for example, evidences market failure then possible responses include: a) deregulation aimed at achieving market efficiency; b) extended reregulation that seeks to 'correct' (endemic) failure; or c) a shift into non-market responses. Few people believe that the market is 'working well' in relation to housing. But preferred remedies have deep ideological roots – some believe that the market can be made to work well; others that it cannot. The most common analysis of the housing crisis – introduced in Chapter 1 - is that new housing supply is inadequate relative to demand. Politicians of all stripes see a supply response as being important. But whilst those on the left see a role for an enlarged public sector in delivering extra homes, those on the right regularly argue that private enterprise should be freed from the dead-hand of regulation: less planning will mean more housing. The broader nature of the 'supply debate' was flagged in Chapter 1 and is touched upon again later in this chapter. Likewise, more is said about planning towards the end of this book.

Local Pathways / Formulations

The objective now, however, is to consider the diversity of 'local pathways' to crisis in England. An overarching emphasis on 'building more homes' is obviously key and features in many narratives, but it was the RTPI that, in 2007, sought to broaden housing debate in England. It did so in reaction to mounting criticism of the planning system's role in restricting housing availability and driving up prices. Low housing affordability, it claimed, is a product of many factors that have nothing (or little) to do with planning control. Housing supply (the amount of existing and new housing) in a bounded space is necessarily finite and price movement will be set by activity in the second-hand market given that fewer than 15% of sale transactions each year are in the new-build sector. Within the second-hand sector, homeowners are borrowing against the value of their homes, extending and improving them – working to increase the value of their asset, in part because of 'perceived and actual deficiencies in personal pensions' (ibid.). More money is being ploughed into the existing stock, creating a political context in which monetary (property) value must be defended and even essential new-build projects are locally rejected. That rejection – instrumentalised through planning – has a broad range of causes. Defence of asset value is important (as Coelho et al, 2017, have recently demonstrated, by linking local authority rejection of new housing to concentrations of owner-occupation) but so too is the quality of schemes coming forward or lack of concern for their impacts on local services and amenity (Gurran et al, 2016). The RTPI also drew attention to the price effects of buyer subsidies – key worker initiatives in the 2000s but also *Help to Buy* later on. A range of investment pressures were also said to have disruptive impacts on housing access in many areas: from second home purchases, through homes left empty, to buy to let investments (with mortgage advances in this sector rising from 44,000 in 1999 to 330,000 by 2006), and also increasing numbers of short-lets, which reduced the availability of longer-term tenancies (this was before the advent of *Airbnb* rentals and their documented impacts on housing markets – see Gurran, 2018). Lending practices, including preference for advancing loans on property and land, were also viewed as important. Land values were seen as an underlying driver of the housing crisis, often being driven up by speculative practices – trading in land with planning permission prior to its development, or 'banking' land and watching its value rise rather than developing it (this was the RTPI's main focus here, but with other factors flagged 'in no particular order' so as to obscure its full-frontal attack on the development sector). And finally, the overheating of some local markets was also, interestingly, attributed to the distribution of good and outstanding state schools and the generally uneven pattern of investment in pre-18 education. The point being made by the RTPI was that the housing crisis has a complex recipe of ingredients; and that analysis of that crisis should look beyond the obvious and delve more deeply into the interplay of factors. It was also looking to shift attention away from land-use regulation and towards demand-side pressures and market processes.

A number of other authors have offered perspectives on the underlying causes of housing stresses – declining affordability reflected in reduced access to housing for a broad range of socio-economic groups – and drawn out what they view as dominant pathways along which the housing crisis has been reached. Some of the literature has been reviewed in the last three chapters. The purpose of this chapter is to examine some of the *principal formulations* of the housing crisis before considering if and how they fit together in any coherent way. For clarity, each formulation is presented as a proposition. Each proposition is then explained, with reference to relevant literature and data. The propositions are set out below and ahead of the main analysis, so as to provide a clear framework for the rest of the chapter:

Propositions behind the main formulations of the housing crisis

Proposition 1: Too few homes are being built in England and this is leading to rising prices and limited opportunities for people to find and access the housing they need. Responsibility for this lies in (private sector) construction capacity, the business models and practices of developers, and in planning regulation (underpinned by the way in which land for housing is allocated (see Chapter 1) and, in some instances, by popular local rejection of development);

Proposition 2: The pattern of housing demand has changed: overseas buyers and direct investors are eating into the supply of housing, causing a crisis centred on London (and other hotspots), which is rippling out to other parts of the country;

Proposition 3: As a country, we are too reliant on the private sector to supply the homes we need. Greater output and choice was achieved when the state was directly involved in building affordable homes, which were bureaucratically allocated and shielded from creeping privatisation in the form of the Right to Buy;

Proposition 4: Moreover, as a country we are too reliant on one type of private sector output – build to sell. New models from that sector (including 'Build to Rent') and other social and collective approaches to housing provision (including 'Community Land Trusts' and greater opportunities to move away from speculative build to self-build, for example) could extend access to good housing and, in some instances, address issues arising from the private ownership of land and the private capture of land rent;

Proposition 5: The tax treatment of housing is hindering supply (e.g. VAT on conversion), impeding market function (e.g. stamp duty adding up-front costs on purchase) and driving rising demand for housing over other assets (e.g. removal of 'Schedule A' tax in the past, application of capital gains tax and inheritance tax and the structure of council tax), with implications for the wider economy;

Proposition 6: Increased credit supply and money creation (achieved through financial deregulation) has been part of an economic strategy designed to activate new housing demand and consumption in support of the 'productive economy' and also the service-based economy (particularly financial services). This has had the effect of pumping new money / capital into the available housing supply and pushing prices out of the reach of household on average incomes – and even higher-earners in some areas;

Proposition 7: Returning to Proposition 1, above, housebuilding (and transaction activity – see Beauregard, 1994) responds to money (credit) supply and not simply to housing need. The housing crisis is a disequilibrium between the supply of money and the supply of the housing asset. For those in need, this leads to declining affordability and a crisis of access. But at the centre of this is the intentional refunction of the relationship between housing and the economy. This draws in overseas buyers (Proposition 2), privileges the private sector (Proposition 3) and owner-occupation (Proposition 4), functions on the basis of privileged tax treatment (Proposition 5) and is underpinned by the supply of credit / debt (Proposition 6).

One apparent flaw in Proposition 7 – which attempts to integrate different formulations – is that the supply of credit seems not to have driven up housing supply. But access to credit is not evenly distributed: rather, it is restricted to those with collateral against which to borrow. Existing homeowners can re-mortgage, release equity, and invest in home improvements and extensions that increase the value of their property. They can also secure mortgages for buy-to-let or second homes. Whilst the proportion of all households who are owner-occupiers has declined in England, the proportion of home-owners with more than one property has increased (see Chapter 5 and Resolution Foundation, 2017). Credit is also advanced to those with property portfolios against which to borrow. Existing home owners can lever more credit than those without collateral, and they pursue housing as the asset investment of choice (and are encouraged to do so) for the other reasons set out in Proposition 7. Credit drives supply by pushing up house-prices and hence the incentive to develop land, *to the extent* that expected profit margins are maintained. Moreover, unequal access to credit has expanded demand for housing, as *asset*, amongst those who already enjoy the benefits of housing, as *home*. Financialisation, as described by Harvey (1978), Beauregard (1994), Gotham (2006; 2009) and others, is often manifest in increased transaction activity in the existing built environment (of commercial property and homes), and in the bidding up of prices, rather than in the production of new property. The Propositions are now more fully explored.

Proposition 1: Too few homes are being built in England and this is leading to rising prices and limited opportunities for people to find and access the housing they need. Responsibility for this lies in (private sector) construction capacity, the business models and practices of developers, and in planning regulation (underpinned, in some instances, by local rejection of development).

The *housing supply debate* – or the general view that the housing crisis will be *mostly* remedied by building more homes – sees housing demand as knowable and linked largely to utility (households forming, having children, and demanding housing in proximity to schools and other services). Failure to supply homes for forming households is a more tangible housing crisis than one linked to finance, credit, pensions or other abstractions.

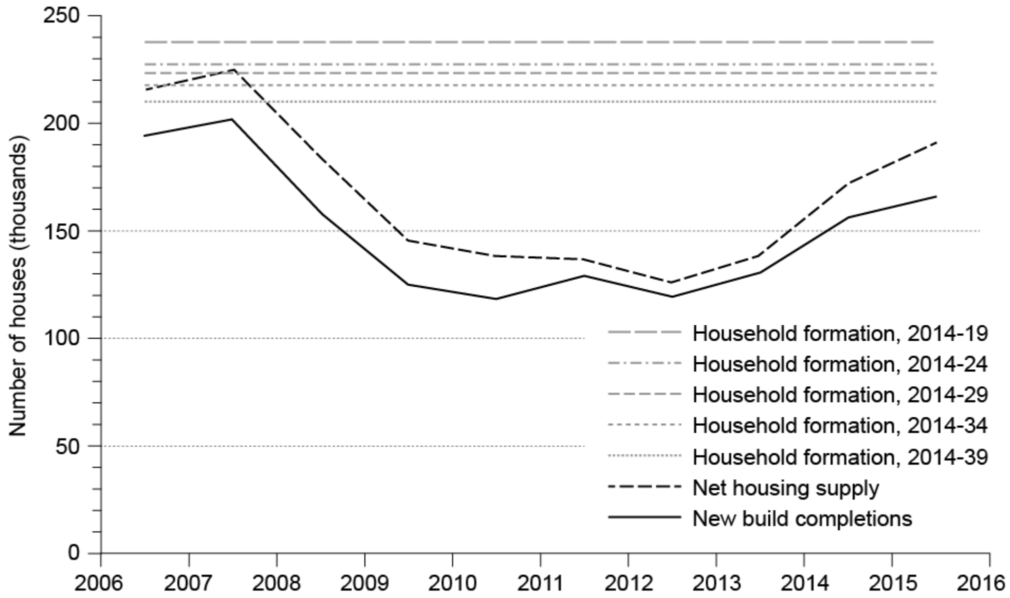

Figure 4.1: Housebuilding and net housing supply, 2006/7 to 2015/16, compared with household formation projections, 2014-2039 (Source: Bentley, 2016: 3, citing DCLG Table 120 and 'Household

Projections, England, 2014-2039. Note household formation lines refer to average annual rate for shorter to longer periods)

Acceptance that more homes need to be built (because national completions are lower than projections of household formation – see Figure 4.1) is followed by a questioning of why they are not being built. What is happening on the production side (what are developers doing?) and what responsibility does land-use planning have for current levels of output? Acceptance that patterns of economic opportunity determine where people need to live leads to another follow-on question: how do local and regional patterns of supply relate to demand (where people need and want to live – see Figure 4.2)?

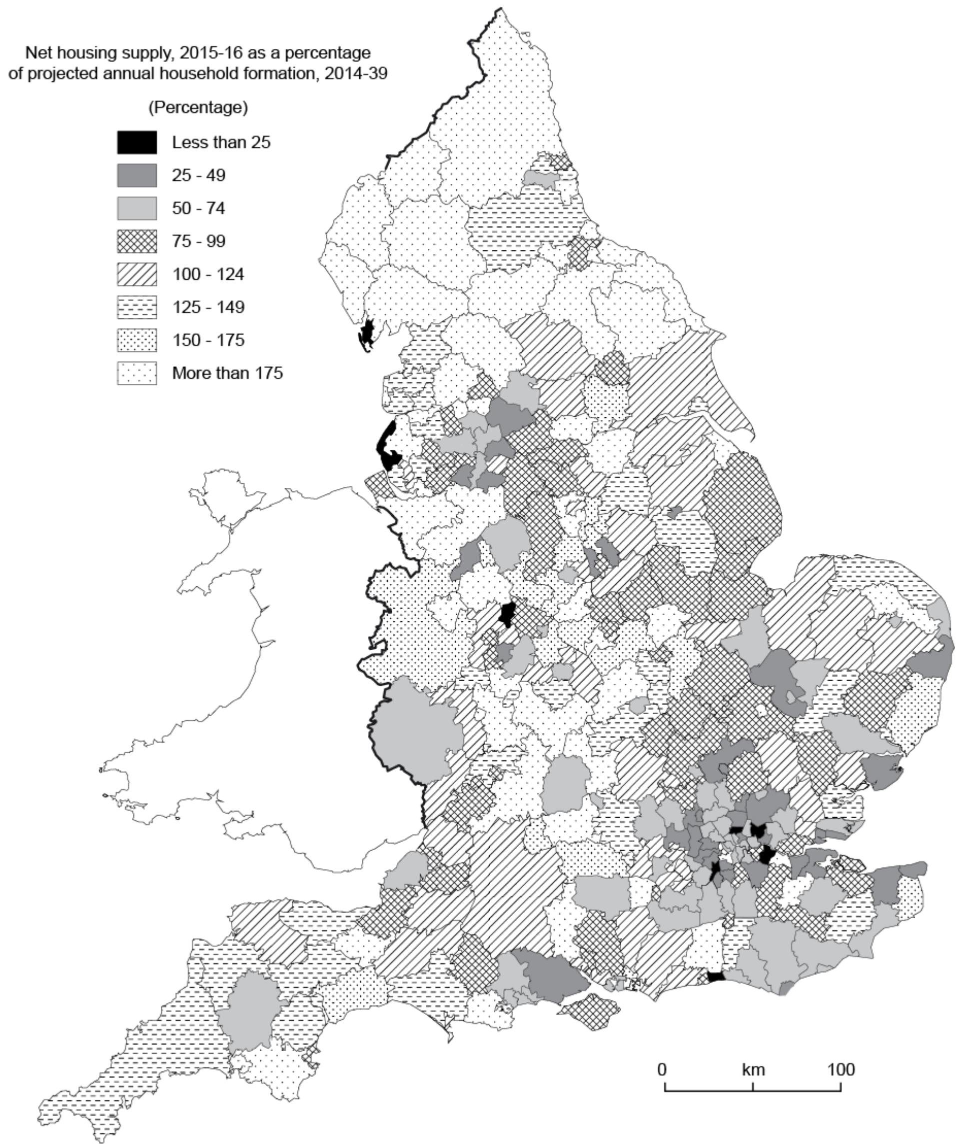

Figure 4.2: Net housing supply, 2015/16, as a percentage of projected annual household formation, 2014-2039, by local authority (Source: Bentley, 2016: 5, citing DCLG Tables 122 and 425 and Civitas Calculations)

The supply debate therefore has two main components, which implicate producers and regulators in the problem of inadequate housing production. The producers (largely volume housebuilders, responsible for 80% of total output) either won’t or can’t supply the homes that are needed. If they *won’t* then this is likely to be due to dominant business interest (making money) conflicting with the aspiration of others (government, which sees the private sector is its principal instrument of housing delivery): essentially, there is some reason why it is better to build fewer than more homes. If they *can’t*, then this is likely to be due to labour capacity, availability of materials, access to finance or regulatory constraint. Regulatory constraint – the role, principles and practices of land-use planning – may generate uncertainty, risk and make it more difficult to raise finance on more marginal development sites (de Magalhaes et al, 2018). Alternatively, some of the land being allocated for new housing in local plans is unsuited to that use in the current market: there is too much political influence over those allocations, which are intentionally unrealistic and designed to slow the pace of development. Government inspectors will pick this up at local inquiries but still, political manoeuvring – politicians representing anti-development constituencies – will add a new dimension to regulatory ‘drag’.

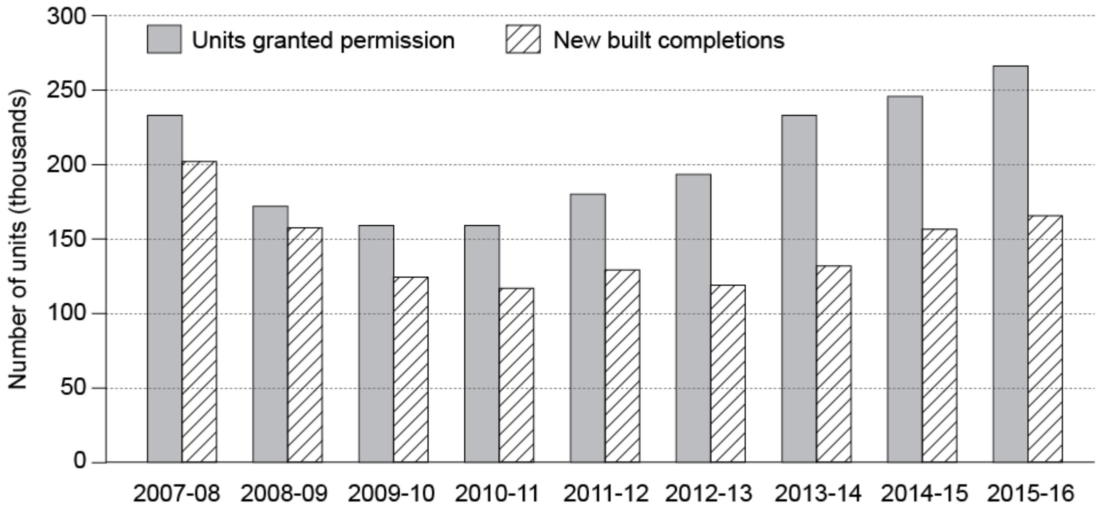

Figure 4.3: Completions and Permissions (Source: https://unherd.com/2018/04/home-truths-part-iv-ministers-made-housing-crisis-worse/)

Figure 4.3 shows the number of planning permissions granted in England in each of the last ten years against the number of new homes built. It shows that permissions are higher than completions. How should this be interpreted? A recent study by Lichfields (2017) has explored this issue and addresses the question of ‘land banking’: developers ‘[…] choosing not to promote the build out of sites, and instead sitting back and watching the value of the land grow, before eventually building new homes, or selling the site on at an inflated price to another party’ (p. 3). The authors note that other studies have refuted the accusation of land banking (p.8) and their own conclusion is that lapse rates, between permissions obtained and completions achieved, happen for a number of reasons – and lag, between the same events, have numerous explanations. Lapses occur because of difficulties raising finance, because it may not ultimately be worth developing a site, because of the time taken to meet pre-commencement conditions, or because a developer’s priorities change. Practical start may be delayed by changing market conditions or other contextual factors. This means that it is unrealistic to 'expect that 100% of homes will be delivered from 100% of planning permissions granted in any given location' (ibid. 12). But likewise, 'given the significant costs and risks involved in land promotion, construction and sales […] there is unlikely to be a business case for active land banking that 'games' the system in order to suppress housing supply' (ibid, 1). Turning the term on its head, Lichfields conclude that land banking is essential for achieving additional housing supply – because across the stock of permissions, just 50% will be converted to completions in a given year. With various assumptions about lapse and lag rates, the study points to a need for many more planning permissions in support of government's current target to deliver a net addition of 300,000 homes per year.

Whilst the planning system needs to increase the stock of permissions, neither that system nor the behaviour of house builders seems to be an unsurmountable impediment to supply. Lapse and lag rates are due to various practicalities of site build-out and market conditions. Supply is important and the delivery of new housing can be expected to address *shortages* where they arise, for example in areas experiencing employment growth or where the past rate of development has not kept pace with population rises and migration. Places often need new housing and vacancies and churn in the existing stock will not meet all needs, even where levels of 'inessential' consumption are low. Bentley (2016: 4) points to a failure in many English local authority areas, especially in the South East of England, to match housebuilding rates to projected household formation (see Figure 4.2). New supply is *part of* the housing cost puzzle, which is examined more closely at the end of this section.

In his analysis of the 'housing supply crisis' in England, Bowie (2017: 26) looks briefly at different perspectives on observable housing tensions. He categories these as a) a neoliberal thesis, which generally views 'the bureaucratic and constraining planning system' as a central cause of inadequate housing delivery; b) a distributional argument, which claims adequacy in housing supply – but unequal distribution; and c) the 'financialisation of capital' thesis which, for various reasons (explored in Chapter 3 of this book) sees economic shift as key to the housing crisis. Bowie's view is that 'no single theory provides a satisfactory contextualisation' (ibid.) but it is clear that the neoliberal explanation targets the issue of supply, seeing land-use planning – and the exclusion of land from development, including in areas of Green Belt – as central to the housing crisis. For that reason, the emphasis on new supply perhaps requires further comment, building on the introduction provided in Chapter 1.

At the heart of the *supply thesis* (that is, the view that new, open-market, supply is inadequate and increasing that supply will solve the housing crisis) is, again, the assumption that demand is knowable / calculable, spatially bounded, and underpinned by a need for housing services (utility). Thereafter, the solution to the declining affordability, falling rates of home-ownership, homelessness and general inequality flagged in the opening chapter must lie in the building of more homes. And increased supply relative to measured demand is achievable, by and large, through reduced land-use regulation. Projections of household formation are generally thought to accurately reveal the level of future housing demand across the UK. Formation rates are regularly presented alongside other data (e.g. housing starts and completions – again, see Figure 4.1 above) to reveal demand / supply mismatches that are then used to explain rising house prices and inadequate access. For example, the Lyons Review of Housing Supply has claimed that '[…] we need to build at least 243,000 homes a year to keep up with the number of new households being formed, but last year we only built 109,000 homes [and] without a change of course, it is predicted that the country will be short of up to two million homes by 2020' (Lyons Review, 2014: 6). The opening figure has unacknowledged limitations: it is a guess at the extent of newly-arising demand for 'housing services' that will be activated by forming households with the capacity to pay market prices and rents. It fails to capture broader demands on the housing stock, from domestic and overseas investors, purchasers of second homes and so on, inferring instead that demand is bounded (in space) and activated only by the need to be housed. The broader nature of demand was introduced in Chapter 1 and suggests that this inference is flawed.

An appreciation of the origins of household projections helps explain their continuing value and their increasing limitations. After the Second World War, a methodology was developed for translating population figures – previously used to keep track of future public pension eligibility – into household projections (Gallent, 2005). These became a key planning tool at a time when local authorities and New Town Development Corporations were advancing significant public housing programmes: they provided a measure of the future requirement for a largely non-marketised product being delivered as part of more comprehensive state welfare (Gallent, 2016). The subsequent privatisation of housing production and consumption - alongside the refunctioning of housing as asset (see Chapter 3) and emergent and unbounded patterns of demand - has strained the connection between projections and requirement. Because they track the mix of households forming and the age-profile of the population, projections provide an important tool for estimating future health care needs, school place demand and pension costs. But these, in large part, remain public goods. The challenge in relation to housing is that need does not link neatly to household formation. A proportion of demand is expressed by non-residents: domestic second home buyers in some locations, international investors in others. Projections provide a 'starting point' for estimating housing requirements but only if 'market evidence is given proper weight' (Whitehead, 2016: 417).

They also provided key intelligence for public housing programmes, but are less useful today for predicting patterns of market demand and consumption. However, they remain important in public and political discourse. The headline projection figure (noted in the Lyons Review) is taken to be the amount of housing that the country should be building. But whilst it underscores the need to deliver new housing in some areas, it does not reveal the scale of building required to progress an effective supply response in the absence of any demand-side interventions (in levels of mortgage lending or tax adjustments). In order to meet demand without seeking to manage that demand or divert investment pressure to other assets, building rates will need to significantly exceed household formation for a sustained and extended period (HBF, 2014) requiring 'output levels of well over 400,000 per annum over many years' according to Whitehead (2016: 419).

That capital movements (into housing) and imbalances in market power (leading to more housing being concentrated in fewer hands) are implicated in the crisis has been a difficult pill for successive right-leaning, centre-right and even centre-left governments to swallow. Housing's current role in capitalist production, described in the last chapter, cannot be easily shifted. This has made government highly receptive to anti-regulation sentiment and calls to speed-up the planning process (see Barker, 2006). Broadly, it has been easier to incentivise housebuilding whilst presenting the crisis as the product of a market held back by over-zealous bureaucracy: ordinary 'working families' pitted against out-dated and synthetic regulation. This formulation of the housing crisis, conforming to Bowie's neoliberal thesis, provides governments with achievable goals during a single parliamentary term: release public land for private development and undertake show-case reforms of the planning system. The period of peak housing crisis in England has been accompanied by frenzied planning reforms which, since 2010, have been billed as simplifications aimed at facilitating housing growth (Clarke, 2012). They have been built on critiques of the planning system that have laid for blame for rising prices at its door (Nathan and Overman, 2011).

Those critiques have a long history, beginning with Hall and Colleagues' seminal *Containment of Urban England* (1973), which warned that post-war planning and urban containment – in the form of 'green belt' – had been a victory for the rural shires, with their green fields and their NIMBYs, and a defeat for overcrowded towns and cities. Much later, Peter Hall launched another stinging attack on urban containment in defence of 'rural land': 'There is a good reason and a bad reason for more compact urban development. The bad one is to save rural land. It is bad because there is no reason to do so, either now or in the foreseeable future' (Hall, 2001: 101). He went on to describe how, in the mid-1990s, 10% of land in the south east of England had been in EU set-aside, 'growing nothing but weeds' (ibid.). Similar critiques were aired in Alan Evans' 1991 analysis of housing standards and affordability: restrictive planning was supported by several 'myths' about England's development capacity and the priority given to environmental protection. Inevitably, planning constraint can impede housing supply and, in doing so, raise access barriers. Given that planning decisions are rooted in local politics (generating what Barker, 2004, termed an 'implementation gap' in housing delivery) as well as land-use and national priorities, it seems inevitable that the rate of housebuilding can be impacted upon, locally and in aggregate. Indeed, suggestions that the housing crisis is mainly about planning (e.g. Cheshire, 2009; Hilber and Vermeulen, 2010; Hilber, 2015) have found a ready audience in policy circles, largely because they align with recent governments' preference for deregulation. Such deregulation and reregulation, however, is a double-edged sword, sustaining a level of *global* demand for housing through its support for financialisation (via bank reregulation and by engineering a secondary mortgage market that has increased the flow of credit into housing) that cannot be met through *local* supply even in the context of much looser planning. Cheshire et al (2014) agree with the point made above: that household projections offer a partial view of housing requirement. But whilst they see rising house prices (and increasing housing space consumption) as being determined by increases in workplace earnings (more housing needs to be built to keep pace with the aspirations made attainable by those earnings), other processes – including capital movements - would seem to be having a more significant effect on a *privatised* housing system today than they were when either Hall and colleagues, or Evans, were commenting on the importance of planning and the size of the available housing stock 30 to 50 years ago. Likewise, housing supply / planning regulation are but one of a number of determinants of house prices.

Before moving on to consider other formulations of the housing crisis, a brief detour into price setting – which is pertinent to all formulations – would perhaps be useful. House prices are, largely, driven by the trading of property within the *existing housing stock* because the volume of transactions in that segment of the market is greater than in the new build segment. Some of that trading is speculative – '[…] the buying and selling of properties in order to exploit […] escalating markets feed a rise in property values that encourages further speculative activity' (Beauregard, 1994: 730). It is also backed by mortgage credit: different buyers using money from the banks to bid against one another and bid up prices. New build – even when new supply targets are achieved – represents on average no more than 1% of that built stock (Bramley and Watkins, 2015), meaning that the relationship between additional housebuilding and price change, observed at a neighbourhood level, can be minimal and short-term (Whitehead et al, 2015). That said, modelling has suggested statistically significant price effects in some situations (Bramley and Leishman, 2005). Muellbauer and Murphy (2008: 10), for example, have built models that predict falls of between 1.5% and 2% across regions where a 1% net increase in housing stock is achieved, relative to working age population. Obviously, building homes where it is not needed will not impact on prices – hence the point that building rates need to track, and spatially relate to, changes in the number of workers and working households. But overall, and assuming that building does take place in the right locations, the 1% net increase is roughly the 300,000 homes nationally that commentators generally agree need to be built (achievable if there is a constant stock of around 600,000 live permissions). Achieving that target will start to flatten the market. Doing more than flattening the market – i.e. substantially changing the ratio between earnings and house prices, and hence tackling affordability – through *housebuilding alone* will require a much higher build rate and a commensurately enlarged stock of permissions. This is because we would be trying to over-power and counteract other determinants of house prices (and affordability) through a new supply response.

Such apparent 'over-supply' relative to measures of demand rooted in demography (which miss broader demands on the housing stock in some areas) seems to offer a way of restoring a degree of market equilibrium. But trying to satiate the market's appetite for housing by turning on the supply tap, and leaving it running, poses significant risks. In the years leading up to the 2009 GFC, England's more cautious (aka slow and cumbersome) land-use planning system meant that unlike some of its European neighbours – notably the Republic of Ireland and Spain – the UK did not experience a boom in housebuilding, triggered by relaxed lending, low interest rates and soaring demand for real estate. In those countries, frenzied building activity - often in odd locations – resulted in bankruptcies and loan defaults that deepened the crisis for Irish and Spanish banks (Duca et al, 2010; Dolphin and Griffin, 2011). That activity was responding not to population growth or changes in household structure (i.e. an underlying *trend*), supported by earnings growth (in turn, linked to rising productivity), but rather by the surge in investment (as capital shifted into real estate) that ebbs and flows in a potentially volatile and *cyclical* way (even if there appears to be greater permanence in that flow than there was half a century ago – see the last chapter). The point here is that real house prices, which rise and fall at different times, are determined not only by the size of the housing stock relative to working age population, but by a range of other trend-based and cyclical drivers. Meen (2011: 357) contrasts more predictable factors affecting real house prices (including those viewed as stable and knowable, such as the tax treatment of housing and planning regulation) with those which are more volatile and linked to economic cycles and, increasingly, the global inter-connectedness of economies. Hence, income (including workplace earnings), interest rates, credit availability (and lender assessments of risk), wealth accumulation and movement (across borders), expected capital gains from one asset compared to another, changing labour and construction costs, and rates of economic activity all impact on prices, on the cost of housing relative to earnings and on affordability. Crucially, opportunities exist to influence all of these cyclical factors through economic policy, potentially changing their relationship with housing and house prices.

Proposition 2: The pattern of housing demand has changed: overseas buyers and investors are eating into the supply of housing, causing a crisis centred on London (and other hotspots), which is rippling out to other parts of the country;

The direct acquisition of housing as pure asset has been an important narrative in recent housing debate. The general story here is that overseas buyers, with ‘cash to splash’, have been attracted to the London housing market. They have seen and grasped an opportunity to achieve significant capital and revenue returns, through buying, selling and renting out property in the capital – especially in ‘prime’ locations where housing is highly sought after. Some of those buyers vent their demand for housing in London because investment opportunities at home are more constrained or because political situations are judged to be less stable: risks are greater and returns more uncertain. The Hong Kong housing market, for example, is highly constrained (Gurran et al, 2016). Building land is scarce (and often needs to be reclaimed from the sea at substantial cost) and homebuyers/investors are reluctant to cross the border into neighbouring Shenzen. London, with its historic links to Hong Kong, appears to offer an ideal investment outlet: housing is high quality, relatively cheap and offers good returns. The circumstances faced by investors in Singapore are very similar: land is constrained and few are interested in crossing the causeway into Malaysia. Much better returns are achievable in London, to which there are similar historic links and, nowadays, excellent flight connections. In other parts of the world – notably Russia and the Middle East – vast sums of money are now concentrated in relatively few hands. Ultra-high net worth individuals in those countries often look to London as a stable and secure place to park their wealth, confident in the knowledge that successive UK governments and London Mayors have welcomed their direct investments in real estate, keen to have these 'supports' for the London property market as well as the wider spending (and VAT receipts) that this global elite bring to the city.

This narrative then extends to cover the wider market impacts of this direct investment: prices escalating in London prime property before rippling out to other attractive locations and then into the wider south east of England and beyond – as house-price refugees flee the capital's overheating market, taking their own money to new places (and sometimes gentrifying those places, triggering new stages of residential displacement).

London is a world city and there seems little doubt that global interest in its residential property market is impacting on house prices and housing affordability. But how big is that impact? There have been several studies of overseas investment buying during the last few years. Some of these have been concerned with broader market impacts; others have focused on the role of 'inward investment' in supporting the new build sector. Rossall Valentine (2015) looks at what he calls the 'foreign ownership problem' (p.46), which extends not only to housing but the sale of 'iconic British brands' to overseas buyers during the last 30 years or so. Foreign ownership of housing is viewed as a part of a broader pattern of investment demand that is locking ordinary families out of the housing market. Although some care is taken to present foreign ownership as just a segment of that demand, there is a clear sense that *British* housing and the *British* people are suffering at the hands of wealthy *foreigners*:

> *The UK housing market is at present grossly unbalanced between powerful investors and weak owner-occupiers. The future for British people who are not already on the housing market is grim and getting worse as British housing increasingly becomes the preferred global haven for wealthy foreigners to invest their money […] the UK market is now rigged against owner-occupiership, with the result that many British people not currently on the housing ladder are condemned to never being able to buy a house in their own country (ibid, 55).*

A distinction is made between the impacts arising from the purchase of second-hand property and new-build, with Rossall Valentine arguing that a 'new only' rule should be introduced (ibid, 53) limiting foreign purchase to new homes. Other authors have been far more circumspect about the impact of overseas direct investors on the UK and London housing markets. Whilst Rossall Valentine chooses to single out wealthy foreigners, others have argued that these are bit players in wider patterns of housing demand. Scanlon et al (2017: 8) note that 'much of the analysis of overseas purchases of London property focuses on prime and super-prime units, although these account for very small numbers'. Quoting figures from *London First*, they point out that in 2012 just 750 of 97,000 new build sales (1%)

went to international second home buyers. Moreover, just 8% of all transactions in London are focused on prime property and only a small fraction of these involved overseas buyers. In other words, the interactions of 'wealthy foreigners' with both the new build and second-hand sectors is relatively small. Figures are presented below.

The problem, perhaps, with overseas buyers – and the reason for interest in them - is that they are implicated in London's housing crisis at a time when that crisis is particularly acute. By juxtaposing stories of young people struggling with rising housing costs with accounts of profiteering from those same rising costs, media reporting contributes to the sense that housing has become central to a wider pattern of social injustice. Besides the broader issue of foreign ownership, the BBC reported in January 2018 that 97,000 UK properties are owned by offshore companies – 23,000 of those by entities registered in the British Virgin Islands (Verity, 2018). 44% of the total are in London; 11,500 in the City of Westminster and 6,000 in Kensington and Chelsea. Not all of the owners of those 'entities' will be foreign. Some will be UK citizens who, up until April 2017, could avoid inheritance tax by owning property through an offshore entity registered in a [usually British] tax haven. Usefully, in its report on this issue, the BBC provided a mapping tool for drilling down and identifying individual properties owned by offshore firms: using that tool, I discovered that my own rented house is owned by a company registered in Cyprus.

Because ownership through an offshore company may conceal the nationality of an owner, and because tax status – domiciled or non-domiciled – is arguably more important than whether an owner is 'foreign by birth', the data on overseas housing investment does not present an entirely clear picture of the role of 'wealthy foreigners' in the housing market. Most studies agree, however, that the role of such buyers has enlarged in recent years – the general narrative of increased interest in London property rings true.

Sassen (2014: 134) has observed that London appears more indiscriminately attractive to foreign investment than other locations, with capital flowing into the city from across the globe. And whilst studies continue to underscore the draw of prime and super-prime locations (see Civitas, 2014; Atkinson et al, 2016a; 2016b; 2017), the overseas market now extends into some parts of outer-London. This point is made by Wallace et al (2017). Like the Scanlon et al (2017) study – which responded to a brief from the Greater London Authority - their interest is in the new build market (and who occupies *new homes* in London). Between April 2014 and March 2016, 13% of new build sales were to overseas buyers (Wallace et al, 2017: 7). Almost 50% of those sales were to buyers from Hong Kong and Singapore (ibid, 8). The distribution of overseas sales, as a percentage of all new build sales, across the London boroughs is shown in Figure 4.4. The attraction of riverside property is revealed in the data, as is the concentration of purchases in Westminster and in Kensington and Chelsea – the same boroughs with the highest concentrations of properties acquired through off-shore companies. When the Mayor of London, Sadiq Kahn, responded to growing concern over foreign buying in 2016, by commissioning research into the issue, he was careful to underscore the benefits of external investment in new housebuilding. Hence, the study by Scanlon et al (2017) was steered to look broadly at four questions: what proportion of new residential units in London are sold to overseas buyers; what proportion of these are left empty (i.e. are 'buy to leave' investments); how reliant are London residential developers on off-plan sales to overseas buyers; and what role do major overseas investors (e.g. pension funds) play in the residential development process.

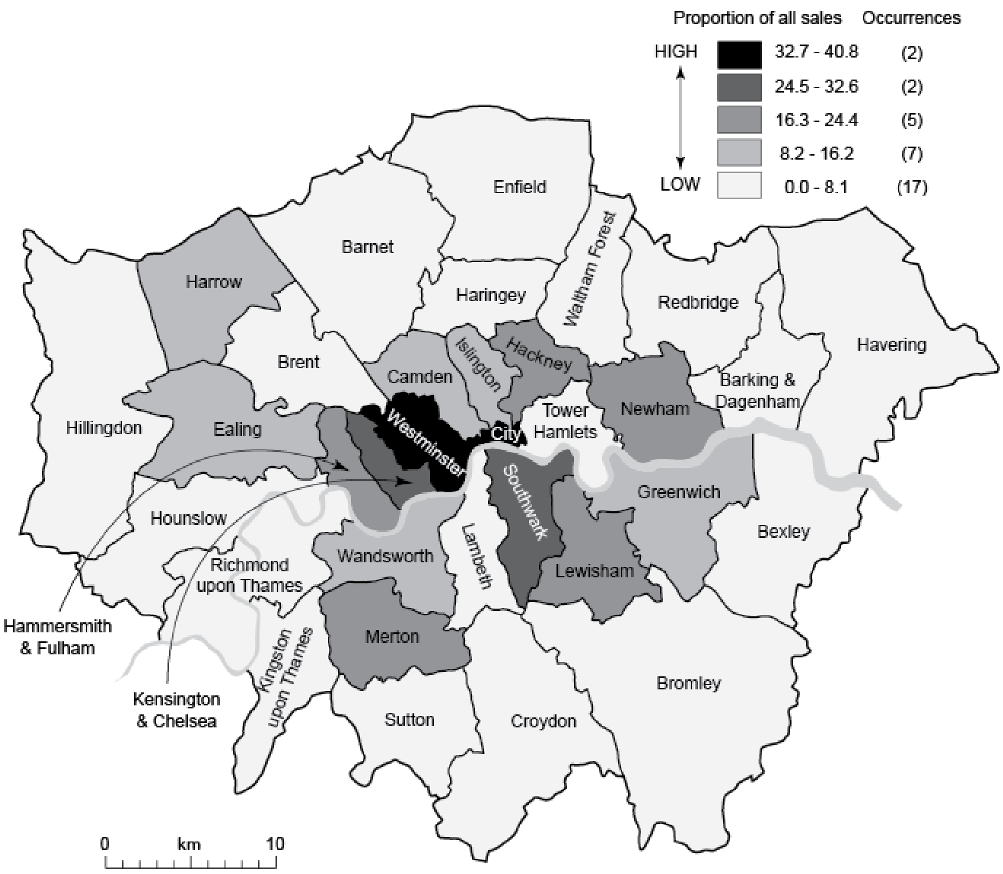

Figure 4.4: Proportion of all sales in each London Borough to overseas buyers (Wallace et al, 2017: 10 – citing Land Registry data)

Like Wallace et al (2017), the LSE study reported a relatively low proportion of sales to overseas buyers. If fact, because of uncertainties in figures gained from estate agents, they deferred to Wallace and colleagues' 13% figure. Furthermore, they concluded that less than 1% of properties were left permanently empty – though 'for those units bought as second homes, occupancy could be as little as a few weeks a year' (Scanlon et al, 2017: 3). The big finding from the study – and the one that the Mayor seemed to be angling for when he announced the GLA's intention to commission this research – was that:

> *[…] overseas buyers almost certainly contributed to the net availability of housing to Londoners. The positive impact of overseas investment on the supply of new housing development is additional and complementary to that arising from these sales and is*

> *becoming increasingly important in speeding delivery, especially on large sites. One important implication of these findings is that there would be real costs to the London housing market if overseas investment either through purchasing new dwellings or supporting new developments began to feel unwelcome (ibid, 29)*

House price impacts arising from foreign purchasing of new homes were said to be slight given the price-setting role of new-build relative to the sum of transactions across the market. Clearly, the study had limitations: it was confined to the new-build sector and it was steered to confirm the undoubted role of global development finance in supporting big, high value and high cost projects. Its findings are not surprising and will probably not assuage the fears of those who believe that foreign capital is complicit in the London housing crisis. However, setting aside the wider finance issues tackled by the study, it is clear that the aspiration to park wealth in housing is not confined to foreign elites, who are simply exploiting the opportunities afforded by the UK's open and loosely regulated property market (see Rossall Valentine (2015: 52) for an overview of regulatory actions taken by other countries). Domestic policy has long nurtured this aspiration and the movement of overseas wealth into housing may now be considered one further source of reassurance for UK home-buyers whose borrowing plans are shaped by expectations of rising prices.

Proposition 3: As a country, we are too reliant on the private sector to supply the homes we need. Greater output and choice was achieved when the state was directly involved in building affordable homes, which were bureaucratically allocated and shielded from creeping privatisation in the form of the Right to Buy.

The privatisation of the broader 'housing system' was produced, in part, by a rejection of the state's role in housing delivery in the last decades of the twentieth century. The narrative of declining public housing provision in the UK is a familiar one; the story has been recounted numerous times (see, for example, Cole and Furbey, 1994; Jones and Murie, 2006; Murie, 2016). The stock of public housing in the UK was built up over several decades with the decision to engage in 'state landlordism' taken at the end of the nineteenth century. However, the UK - alongside other European countries recovering from the devastation of the Second World War – accelerated its programme of public housebuilding after the war. The delivery of 'council housing' formed part of a new post-war social contract and a broader state welfare package that included the creation of the National Health Service in 1948 and a comprehensive planning system. But from the 1950s onwards, local authorities were given the facility to sell council homes (following the Housing Act 1952, see Murie, 2016: 14). That facility became a 'right to buy' for sitting tenants in 1980.

Local Authorities and New Town Development Corporations built just over 4.9 million homes across the UK between 1949 and 1980 – just under half of all new homes built during that period (10 million – MHCLG, Live Table 241). Public house building tailed off after 1980, with a further 373,000 built between 1981 and 2016 (5.5% of all homes built). During that same period, private enterprise delivered

5.5 million homes – nearly 82% of total output. Housing association output was 4.4% of the 1949-1980 total, rising to nearly 13% for the 1981 to 2016 period. At its peak in 1953, public housing output stood at 245,160 units – 75% of all units built during that year were 'council houses'. At its low point, in 2004, local authorities across the UK built just 130 new homes: 0.06% of total output. Figures for England can be provided separately (MHCLG, Live Table 244) but these merely reproduce the same peaks and troughs and the overall pattern of post-war growth and rapid decline after the Housing Act 1980 and the introduction of the 'right to buy', followed by stock transfers to the housing association sector.

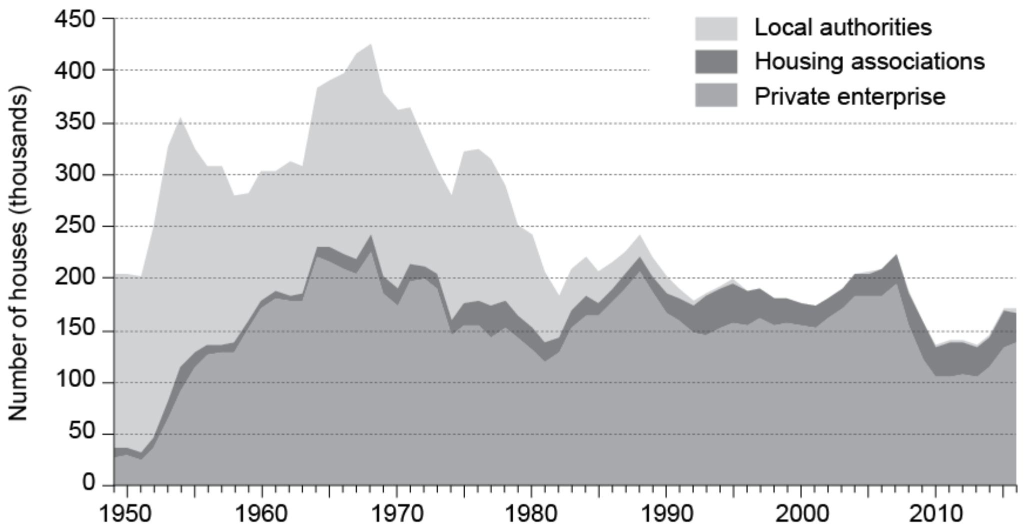

Figure 4.5: House building: permanent dwellings completed, by tenure (Source: MHCLG, Live Table 241)

Figure 4.5 shows the changing balance between public, housing association and private sector housebuilding between 1949 and 2016. But how much housing was 'lost' to the public sector following the introduction of the right to buy? In April 1981, the total stock of dwellings in England stood at 17.9 million. Of those, just over 5.1 million were rented from local authorities (29%). In March 2016, there were 23.7 million dwellings, of which 1.6 million were rented from local authorities (just under 7%). The net 'loss' of council homes over that period – mainly because of transfer to other tenures – was just over 3.5 million units (MHCLG, Live Table 104). That figure rises to 4.1 million, in aggregate, for England, Scotland and Wales (MHCLG, Live Table 102). England, and the rest of the UK, has shifted from being a society content to build and live in council homes to one dominated by owner-occupation, private renting (62% and 20% respectively for Great Britain in 2016), and delivery by private enterprise (81% of housing completions across the UK in the same year). For stock and new-build, we are roughly 80% private, with the remaining 20% dominated by third sector providers.

What have been the consequences of this shift to private provision? The right to buy has accelerated the growth in UK home ownership. Murie (2016: 5) points out that 2 million former tenants purchased their homes under the right to buy (other tenancies transferred to housing associations) and because of available discounts, this '[…] initially expanded home ownership, but failed to sustain that growth, and some 40% of right to buy properties were transferred to private renting'. As noted in the last chapter, the purchase of freeholds and leaseholds through the right to buy contributed to increased demand for mortgage lending, diverting 'investment from other areas and sectors'. This programme of privatisation accentuated the economic shifts examined in Chapter 3. The stock of 'bureaucratically allocated' housing across the UK has substantially declined: this housing was let on 'fair rents' and was affordable to households on a range of different incomes. It was allocated according to assessed need, using different points-based systems. And finally, its loss has resulted in a sharp turn away from bureaucratic allocation of housing in the UK to allocation mainly through 'the market'. This turn, according to Tunstall (2015), has been a significant cause of increasing housing inequality (see Figure 4.6). Over a hundred year period (from 1911) she shows that the bureaucratic allocation of housing by the state during the 20th century was associated with rising equality of housing / space access. The emphasis on market allocation since 1980, when the right to buy was introduced, has resulted in a reversal of those gains.

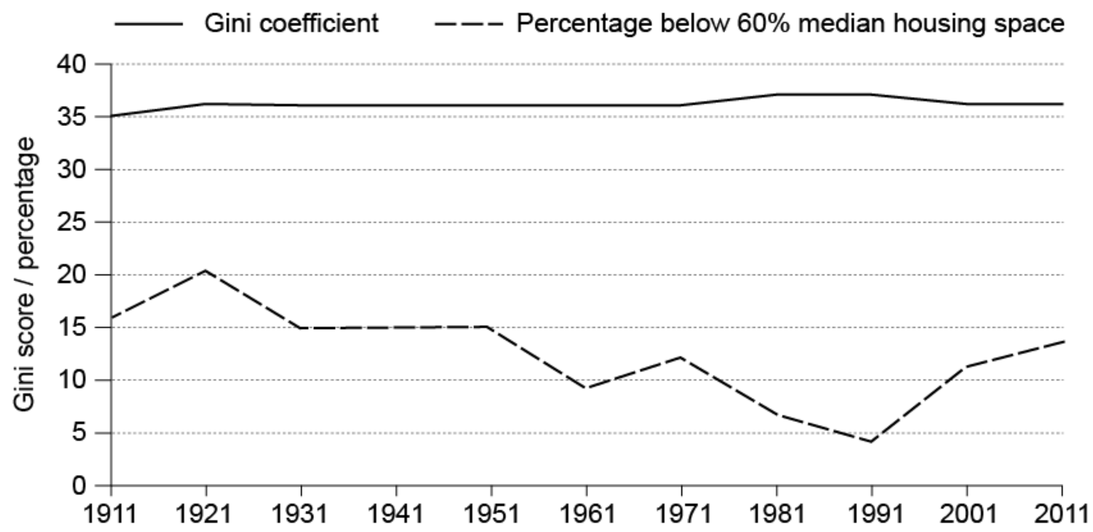

Figure 4.6: Inequality in distribution of rooms per person in private households in England and Wales, Gini coefficient and proportion below 60% median space per person, 1911-2011 (Source: Tunstall, 2015)

The consumption of a commoditised housing resource through the market – and the shift away from bureaucratic allocation by local authorities, of council housing – has led to a skewed distribution of the available housing 'space' in England (Tunstall, 2015). Building on general conclusions reached by Dorling (2014), Tunstall adds weight to the argument that 'what appears to be a housing supply problem in the UK is really a housing distribution problem, driven by high and growing inequality in housing consumption' (Tunstall, 2015: 109). That distribution problem is underpinned by income (and wealth) inequality and also by the association of 'big houses' with wealth and status. Between 1911 and 2011, 85.9 million extra rooms were created through development in England and Wales. The rate of development was faster than population increase and household formation. In 1911, 34.6 million residents shared 37.4 million rooms; a hundred years later, 54.8 million residents shared 123.3 million rooms (ibid, 114). The ratio of rooms to residents more than doubled. But whilst in 1911 just 2,639 residents were living on their own in ten or more rooms, in 2011 331,337 single people were living in eight or more rooms. The percentage of households living in 60% of the median housing space fell from just over 15% in 1911 to just under 5% in 1991, but then shot back up to just under 15% in 2011 (ibid, 117). Tunstall's analysis reveals that there is now more housing space in England and Wales per capita than there was a century ago, but the consumption of that space is skewed towards wealthy households largely because of the turn from bureaucratic to market allocation of housing. The improvements in space 'allocation' until 1981 can be explained by the prevalence of council housing, built and allocated bureaucratically. But increased reliance on market allocation after that date - as local authorities stopped building and started selling their stock of homes - meant that income inequality (also rising during this period; Dorling, 2014) came to be mirrored in patterns of housing access and consumption.

Another important part of this narrative is the public sector's switch from building homes - *subsidising* 'bricks and mortar' - to subsidising individuals through a system of 'housing benefit'. That system, providing income-support to households unable to otherwise meet social rents (in the third sector) or private rents, was viewed in the 1980s as a short to medium term cost of withdrawing from direct public provision – payable to workless or low-income recipients. However, because housing associations were unable (and never meant) to bridge the gap in social housing provision left by the loss of council housing, '[…] governments have been faced with increasing housing benefit costs associated with tenants paying market rents in the private sector because there was too little public and social rented housing available' (Murie, 2016: 5). Successive governments have become victims of their own housing crisis: privatisation and the various drivers of increasing housing costs – set out in this chapter and the previous – have locked government into the private rental market, with benefit payments spiralling upwards along with private rents. The BBC reported in 2016 that, in the previous 5 years. British local authorities had spent £3.5 billion on temporary accommodation for homeless households (BBC, 2016). Because private enterprise has been focused on building homes for sale, the expansion of the private rental sector (rising from 11% of homes in England in 1981 to 20% in 2017) has largely occurred through 'amateur landlordism' – private individuals taking out buy-to-let mortgages (Pawson et al, 2017). Rising rents in the private sector, especially in the south of England, mean that growing numbers of working households now rely on housing benefit (Holmans, 2014). Dorling (2014) has argued that by subsidising individuals rather than building homes, government has propagated a negative circularity, with former social housing tenants now reliant on a largely unregulated and often unaffordable private rental sector, sometimes paying their housing benefit to buy-to-let investors. This narrative, therefore, sees the money that was once spent on building homes redirected to private housing investment, widening the divide between homeowners and non-homeowners.

More broadly, the pattern of privatisation described in this section – alongside the loss of bureaucratically-allocated housing – has increased households' exposure to market forces. Forms of affordable housing are still provided, but these are concerned with supporting *market entry*. They include housing let on 'affordable rents' that rise with income and provide limited shielding from full market costs. They also include 'intermediate tenures' such as shared ownership, designed to allow assisted households on average incomes (or even well above average incomes in London) to 'staircase' into full ownership. Declining housing affordability and evidence of increased inequality in housing access has catalysed support for greater involvement of the public sector in housebuilding. On the left, there are calls to change direction and build council homes again. On the right, there is some support for greater involvement of local authorities in general housebuilding, as a means of increasing construction capacity and returning to the output peaks of the 1950s and 1960s, only achieved through a combination of public and private activity. This discussion is returned to in Chapter 6.

Proposition 4: Moreover, as a country we are too reliant on one type of private sector output – build to sell. New models from that sector (including 'Build to Rent') and other social and collective approaches to housing provision (including 'Community Land Trusts' and greater opportunities to move away from speculative build to self-build, for example) could extend access to good housing and, in some instances, address issues arising from the private ownership of land and the private capture of land rent;

It was noted in the last section that more than 80% of new housing in the UK is delivered by private enterprise. Of the 171,000 homes built in 2016, the private sector was responsible for nearly 139,000. Ten housebuilders built more than half (76,587) of those homes and the top 25 largest housebuilders, by turnover, built 101,506 homes – 73% of total private output (Housebuilder, 2017). These companies are mainly engaged in 'build to sell', either to owner-occupiers or buy-to-let investors. In the ten years to 2016, total output from private enterprise *in England* was 1,036,150 completions. During the same period, the number of owner-occupiers fell by 29,000 (MHCLG, Live Tables 244 & 104). Owner-occupation is declining and private enterprise is no longer delivering for that market. Trends suggest that building more homes will not result in more people owning their own homes: rather, it will lead to more homes / assets in the hands of investors. The industry is clear that buy-to-let has 'played an important role in the traditional build to sell model' (British Property Federation, 2017: 7): '[…] BTL investors have been making up an average of 50% to 60% of sales in London or 30% outside London'. But this market is threatened by increased tax liabilities for landlords and increased restrictions on mortgage lending since the 2009 GFC. For that reason, the big companies have been exploring the potential of 'build to rent' as an 'additional sales outlet from the build to sell model' (ibid, 7). Private enterprise hopes to substitute individual investors with larger investors backed by institutional capital.

Although government continues to support the aspiration towards owner-occupation, and will not 'stand idly by as young people struggle to get a foothold on the housing ladder', volume producers – Britain's largest 25 housebuilders – are not motivated to deliver against that aspiration. They are in the business of building houses and making money – with much of that money coming from investors, who rent houses to those who need them. For this reason, owner-occupation is declining and private renting in increasing. 'Build to Rent' promises to professionalise private renting, eradicating many of the problems associated with amateur landlordism. But it is also a means for big companies to maintain their market dominance – limiting the available space for alternative providers and different housing models and types.

The headline 80:20 split, between private / non-private production and with the former dominated by build to sell, reveals a lack of diversity – or 'plurality' - in housing production. There has been a recent focus in policy debate on the decline of smaller and medium-sized housebuilders. In 1977, small housebuilders (companies building between 1 and 100 units each year) were responsible for 45% of private sector housing output, falling to just over 10% in 2015 (HBF, 2017: 15). Between 1988 and 2015, the number of small housebuilders fell by more than 80%. The number of medium-sized housebuilders (delivering between 101 and 2000 units each year) reduced by just over 53%. And, during the same period, the number of big housebuilders grew by nearly 8% (ibid, 16). A number of factors contributed to this rescaling of the industry. From the point of view of the *Home Builders Federation*, important changes in the planning system in the 1990s 'tipped the balance of control' away from entrepreneurial housebuilders to local planning authorities (ibid, 7). Then, a decade later, the GFC resulted in a rationing of development finance which hit smaller housebuilders hardest. More generally, the planning system, with its various negotiations, agreements and uncertainties, generates proportionally bigger risks for smaller companies. Larger companies are better able to cope with those risks and bear the costs. Research by de Magalhaes et al (2018) reported the view that the one big scheme that goes ahead covers the costs of several others that fail to get off the ground. Smaller companies, with less working capital, are unable to 'play the odds' in this way and, according to the HBF, need the cushion of a more supportive planning process: less committee oversight on smaller sites, in-principle permission on some of these sites, and even technical support from planning authorities to help smaller companies get started (HBF, 2017: 9).

The volume housebuilding industry, which dominates housing production in the UK, works with economies of scale. It is generally looking to develop larger sites, or at least not the very small sites where just a handful of new homes will be built. If small housebuilders, often building *to contract* rather than speculatively, are absent from the market then this will impact on both total housing output and on the contribution of other housing models to wider access. The HBF (2017: 25) argues that 'if the SMEs that have disappeared since 2007 were replaced and were able to maintain supply at the same annual rate as their current contemporaries, we could expect to see an additional 25,000 homes produced each year'. Relative to the output required to 'flatten the market' (see previous discussion), this is perhaps small beer, but the contribution of a more mixed model of housing delivery should not be judged solely in terms of supply quantum. Satsangi et al (2010: 114) have observed that the lack of smaller housebuilders in many rural areas is a key impediment to housing production and access. They have a role to play in working with others on alternative production models, including self-build and the delivery of housing through community land trusts.

'Rebuilding plurality' in housing production – a term used by the HBF (2017: 25) – extends to non-market models that engage with market providers, including SMEs. In response to manifestations of the housing crisis in various parts of the world, different authors and various bodies have advanced solutions that seek to circumvent standard land market processes or turn the consumers of housing into producers. These include community-based housing solutions built on 'land-trust' models (Moore and McKee, 2012) that emphasise 'resale restrictions used to preserve housing use for the [Trusts'] target clientele, and an approach to citizen governance that privileges local communities' (ibid, 280). As their name suggests, land-trusts acquire and take control of land in perpetuity, retaining it for community use and either granting leases to 'target clientele' or renting out homes. Communities or individuals may build homes themselves or work with private SMEs (Benson and Hamiduddin, 2017). They often aim to halt the trading in land that bids up the value of houses built on it. By retaining control of that land, and by being constituted as not-for-profit bodies, they may be able to regulate the onward sale of leases, fixing sale prices to local incomes rather than allowing properties to be traded freely in the open market. In that way, they retain a supply of 'affordable homes' in perpetuity. All such innovations seek to overcome, at least locally, the structural challenges that are the main focus of this book, and as such might be viewed as surface interventions – extremely difficult to upscale and mainstream.

However, the proposition that marketised production and 'build to sell' has narrowed the scope of housing solutions, limiting overall supply and local access, is a persuasive one and viewed by business and community interests alike as complicit in the broader housing crisis.

Proposition 5: The tax treatment of housing is hindering supply (e.g. VAT on conversion), impeding market function (e.g. stamp duty adding up-front costs on purchase) and driving rising demand for housing over other assets (e.g. removal of 'Schedule A' tax in the past, application of capital gains tax and inheritance tax and the structure of council tax), with implications for the wider economy.

The tax system – alongside broader fiscal governance, extending to monetary policy and regulation affecting the financial sector – affects the housing system in three broad ways. It may assist or impede the supply of housing; it may affect market function through the setting of transaction costs; and it will make housing a more or less attractive asset class. In short, tax impacts on supply, trading and the pattern of demand and consumption.

The proposition briefly explored in this section is that various tax liabilities affecting housing in England *are* in fact impeding supply, 'gumming up the housing market' (Whitehead, 2017) and attracting capital investment into housing.

Twenty years ago the Urban Task Force, in its report *Towards an Urban Renaissance*, raised the issue of harmonising VAT (value added tax) on new-build and residential conversions (UTF, 1998). Tax on the latter was viewed as a brake on increasing housing supply through conversions, extensions and renovations that might make an added contribution to net supply, especially in some urban areas. The charging of VAT on such projects has been described by Barker (2014: 64) as a 'big anomaly'. A zero rate of VAT on 'renovations' (particularly bigger projects) 'would provide an incentive to extend the present stock so that areas would tend to become denser in terms of population per hectare' (ibid.). VAT also affects self-build projects and is changed at a rate of 20%. The rules critiqued by the Urban Task Force remain largely unchanged, although in some circumstances, relief is available on VAT payments. The DIY Housebuilders' Scheme allows VAT to be reclaimed for building a new house, converting a building into a dwelling and bringing a dwelling that has not been lived in for at least a decade back into residential use. VAT is claimed back from HMRC on the materials used in the project, which is currently charged at 20%. Labour and materials will carry a 0% rate for new build and a 5% rate for conversion. It is the move to a 0% rate on conversions that Barker has recently called for. These differentials may seem minor, but they add costs to increasing supply from sub-division in already built up areas, decrease the likelihood of some empty homes being brought back into residential use, and present would-be self-builders with upfront costs that can only be recovered after expenditure has been incurred and by presenting claims to HMRC. There are of course other taxes on supply which affect companies in the business of preparing land for development or building homes. Private enterprise can of course expect to be taxed on the profits it generates, but costs associated with land remediation can be set against corporation tax. Land Remediation Relief (LRR) can be claimed by land owners, developers and loss making companies involved in land remediation (the latter can receive a tax credit). LRR was introduced in 2001 and aimed to bring former industrial land back into effective use. More recently, Derelict Land Relief (introduced by the Finance Act 2009) can also be claimed for remediation on priority sites listed on the National Land Use Database (NLUD). In short, the level of relief (from tax liability) is proportionally greater for commercial companies engaged in large projects on previously developed land. Small projects, sometimes by self-builders, may incur proportionally more tax. This may impede the goal of 'rebuilding plurality' in housing production, with VAT rules in particular working against small schemes, potentially undertaken by non-commercial entities such as community land trusts.

Taxes affecting supply and construction are perhaps less well-known than taxes on ownership and trading, which shape patterns of housing consumption. Principal taxes on consumption in the UK are as follows: stamp duty payable on acquisition, calculated as a percentage of purchase price; regular 'council tax' payable to the local authority in which a property is located; capital gains tax on homes not occupied as a principal residence; and 'inheritance' tax payable against an estate on death. The capital switch into fixed assets (explored in the previous chapter; but see also Barker, 2014: 60-62) has been supported by the tax treatment of residential property in the UK and resulted in a fiscal conundrum, whereby taxes ease access into housing for some but bar the way for others. Many investors derive relative tax benefits from owning land and property, capturing land rent and losing very little of that rent through tax liability. For that reason, land and land-tax has dominated some recent analyses of the housing crisis, which have ended with calls to re-introduce land value tax (akin to the Schedule A tax abolished in 1963) and reinstate capital gains tax on principal residences (abolished in 1965). This would have the effect of shifting tax liability away from earnt to un-earnt income – taxing land and property-based wealth rather than work, and thereby distribute the wealth concentrated in property more broadly, via the tax system. Returning to the present system, the following forms of tax are viewed as problematic.

First, stamp duty: much has been written on the logic of stamp duty (see, for example, Andrew et al, 2003). It was, until 2015, a 'slab tax' payable at different rates at different price thresholds. At the low end of the market, governments have shown occasional concern for the impact of stamp duty on first-time-buyers, increasing the price threshold at which the lowest rate (1% of purchase value) is payable and removing the duty altogether for first-time buyers purchasing homes under a certain value. The presented goal has been to ease entry into home ownership. Such moves, however, add to house price inflation and to the cost crisis: it was noted above that rates of home-ownership have declined rapidly during the last decade. Further up the 'property ladder', stamp duty can act as a disincentive to (or simply prevent) trading-up. This has been illustrated in recent work by Scanlon et al (2017b) who argue that stamp duty contributes to England's 'dysfunctional housing market' (p. 2) by weakening housing market transaction and preventing both housing access and a better distribution of housing through down-sizing. A survey by the authors showed that stamp duty added considerably to the cost incurred by older homeowners wishing to move to smaller properties, causing them to stay put. This has the effect of reducing the numbers of larger homes available to families in the second-hand market. More generally, stamp duty presents an enormous transaction cost to would-be movers, especially in London (Figure 4.7).

When the stamp duty was a slab tax (payable at a flat rate depending in sale price), this caused price distortion in the middle bands as vendors and buyers 'shared' the liability through the former agreeing a sale price below the nearest threshold (this caused a bunching of prices at that threshold rather than a smooth gradation – Barker, 2014: 59). This no longer happens. The main concerns today relate to the impact on trading, on achieving a better distribution of housing resource (Scanlon et al, 2017b: 26) and on general household and labour mobility (ibid, 31; Edwards, 2015: 35). These and related problems have led Bowie (2017: 165) to conclude that 'stamp duty on the purchase of residential property should be replaced by a tax on the capital gain on land and property on disposal'. The problems associated with stamp duty seem to give weight to the case for looking again at capital gains. However, for new build property, stamp duty is part of government's early cost-recovery for investment in key infrastructure including schools, health care and so on. Whether the future annual tax take from capital gains on *all* residential property would be roughly equal to the current total revenues from stamp duty is a question that I return to in Chapter 6.

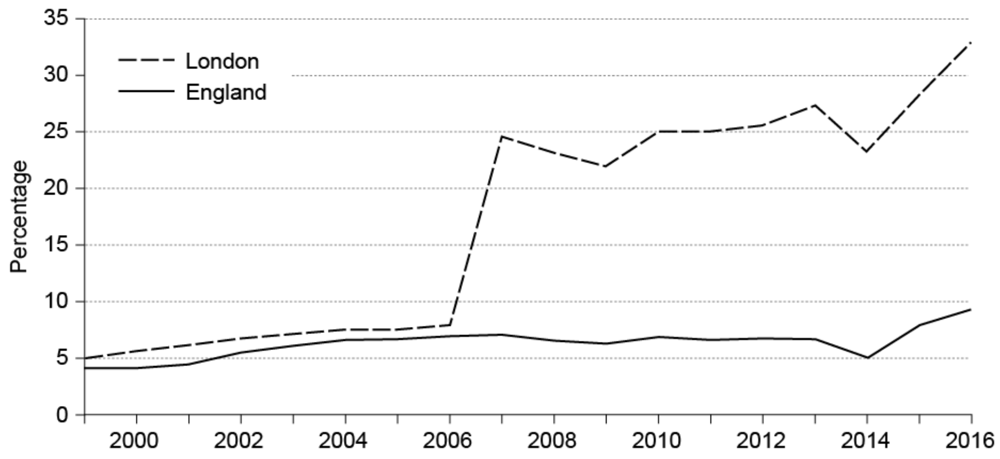

Figure 4.7: SDLT on median home as % median gross full-time earnings, England and London 1999-2016 (Source: Scanlon et al, 2017b: 7 – drawing on statistics from ONS)

Second, capital gains tax: this tax (on rising property value, as un-earnt income) is not charged on a principal home. Barker (2014: 60) argues that it could be charged, and perhaps should be, bringing '[…] the taxation of housing into line with other assets' and discouraging 'over-investment in housing'. Levying capital gains tax on main homes would be justified as recompense for the public investments – in good schools and transport infrastructure – that lift prices above the level achieved through householder improvements. But in the absence of capital gains tax, housing remains an almost perfect investment vehicle: 'trading up' to a larger home is as much about securing a 'bigger pot' for untaxed gains as it is about securing additional space for a growing family (though it was shown above that SDLT may impede trading up). However, proponents of extending capital gains tax in this way concede concerns over the likely impact on household mobility. The tax could become another brake on the mobility of labour (besides its wider effects on consumer confidence). For this reason, Barker (ibid, 61) proposes that accumulated liabilities could be rolled into a higher rate of inheritance tax.

But such a move would swim against the tide of public expectation. Successive governments have raised the level at which inheritance tax becomes payable whilst no action has been taken to 'regulate the trust-like devices used to circumvent inheritance tax' (Edwards, 2015: 34). Barker's proposal is that capital gains tax on a lifetime of property trade-ups would be payable (or 'subtracted') from a person's estate and form part of the inheritance tax liability, decreasing the 'incentive to hold housing assets for investment' (Barker, 2014: 62). Hence, inheritance tax would become a vehicle for taxing capital gains whilst softening the impact on mobility and consumer confidence. Edwards (2015: 35) argues that it should also switch from being a 'charge on estates to being a charge on those who inherit', increasing revenue generated and more widely disbursing inter-generational wealth. These debates are important, but the system as it stands – a zero rate of capital gains along with no land value tax – continues to shape patterns of housing consumption. Council tax further accentuates housing's draw as an investment asset.

Council tax is the third major area of concern. The current banding system (linking property values to annual liability) is based on a valuation exercise undertaken nationwide on 1st April 1991. In the 27 years since that exercise, the geography of house prices has altered dramatically: today, 'those living in local authorities where house prices have been relatively weak – often poorer areas – tend to be overtaxed [and] those in high-value properties are undertaxed due to the width of the highest council tax band' (Barker, 2014: 65). So the first problem with the tax is that poorer households pay, proportionally, much more than wealthier ones. Once the highest band is reached ('H' for a property valued at £320,000 or more in 1991) the liability is fixed and does not change irrespective of a property's current value. The owners of high-end property in central London – including homes worth many millions of pounds – will pay the same as the occupant of a modest terraced house in many suburban parts of the city. At the root of the council tax question is uncertainty over what the tax is and what it seeks to achieve. As well as being a charge for local services (perhaps justifying its relatively 'flat' structure), it is also a 'proxy for a land value tax on the area a dwelling occupies' and 'a substitute for VAT on the consumption of housing services' (ibid, 66). But to perform these last two tasks well, council tax would need to link to land prices and imputed rents. If it does not then some housing will remain grossly under-taxed, but if it does (and there is an annual re-evaluation of tax liability based on land prices and rents) then council tax would become an inherently unstable means of funding local services, being suddenly coupled to market volatility. Barker (2014: 66-68) sets out a number of reform options; but the point here is that council tax, as currently constituted, is a poor substitute for a land value or property tax and represents one of the key ways in which housing investment is under-taxed and hence incentivised (see also Muellbauer, 2005)

The treatment given to tax in this section has firstly been very broad and secondly focused mainly on the way liabilities affect owner-occupiers. More could have been said on second homes and income from buy to let. Equally, the impact of capital gains on the consumption of investment property has not been touched upon: here, there are various ways to reduce liability through renting out homes (claiming 'renting allowance'), refurbishing property to increase capital value (and offsetting tax with claimable expenditure) or 'flipping' between first and second homes to avoid capital gains altogether (Paris, 2010). But the general 'proposition' is, I think, illustrated by this brief examination of a selection of taxes: these present barriers to greater diversity in housing production, 'gum up' the market and work against a better distribution, and generally add to the attraction of holding housing as asset.

Proposition 6: Increased credit supply and money creation (achieved through financial de-regulation) has been part of an economic strategy designed to activate new housing demand and consumption in support of the 'productive economy' and also the service-based economy (particularly financial services). This has had the effect of pumping new money / capital into the available housing supply and pushing prices out of the reach of household on average incomes – and even higher-earners in some areas.

The sixth proposition was explored in some detail in the last chapter: hence its coverage here has been pared back. It was shown in Chapter 3 that debt is a source of financial income and profit – it is a tradable commodity. It is therefore in the interests of banks to advance loans (to supply credit and, in doing so, create money), which thereafter provide a source of income, or which can be sold on in order to limit the bank's exposure to risk (that risk is passed to investors, who accept that risk in return for fixed income). There are two sources of demand for debt – from homebuyers in the primary mortgage market, and from investors in the secondary mortgage market. Deregulated banks (see Wainwright, 2009) respond to that demand by creating money through the act of advancing loans, to an aggregate value greater than the balance of deposits held. Hence, fictional capital (Harvey, 1978) is created and the 'value' of property is set not by the homebuyer's estimate of utility, but by the bank's estimate of the value of the debt in the secondary mortgage market. Where there is no secondary mortgage market – and no securitisation of debt – property values will still be set by money supply and the estimate of profit from advancing a loan rather than banks choosing to minimise risk. Mortgages (debt) are a source of profit, hence the practice – especially in the run-up to the GFC – of encouraging borrowers with good credit ratings to borrow many multiples of their household earnings. When money is pumped into housing in this way, prices tend to react quickly. It was noted in the last chapter, for example, that in September 1971, '[…] the Bank of England cut direct controls on lending through the Competition and Credit Control policy'. This changed the relationship between earnings and borrowing potential - it essentially (and temporarily) increased money supply and prompted a rapid rise in house prices - 37% in 1972 and 32% in 1973.

The relationship between credit / money and property prices has been highlighted recently by Keen (2018) in a blog post preceding a yet-to-be-published technical paper. 'Banks', he argues', have been allowed by governments to 'create money and inflate house prices'. Moreover, 'the demand side of the housing market has one main factor: new mortgages created by the banks. *Monetary demand* for housing is therefore predominantly mortgage credit: the annual increase in mortgage debt'. Keen shows that when mortgage credit rises, so do house prices. The same point is made by Ryan-Collins et al (2017: 117), but linked to housing supply:

[…] a major driving force in UK House price increases in the last thirty years has been a relatively elastic supply of credit meeting a fixed supply of land along with increased speculative demand for home-ownership. Without the existence of a credit- and money-creating banking system, it is impossible to envisage how such huge increases in prices would have been possible given the slower pace of income growth.

Keen (2018) illustrates the coupling of house price change to changes in aggregate household credit (because 'mortgage debt data isn't systematically collected'): his depiction of this relationship is shown in Figure 4.8.

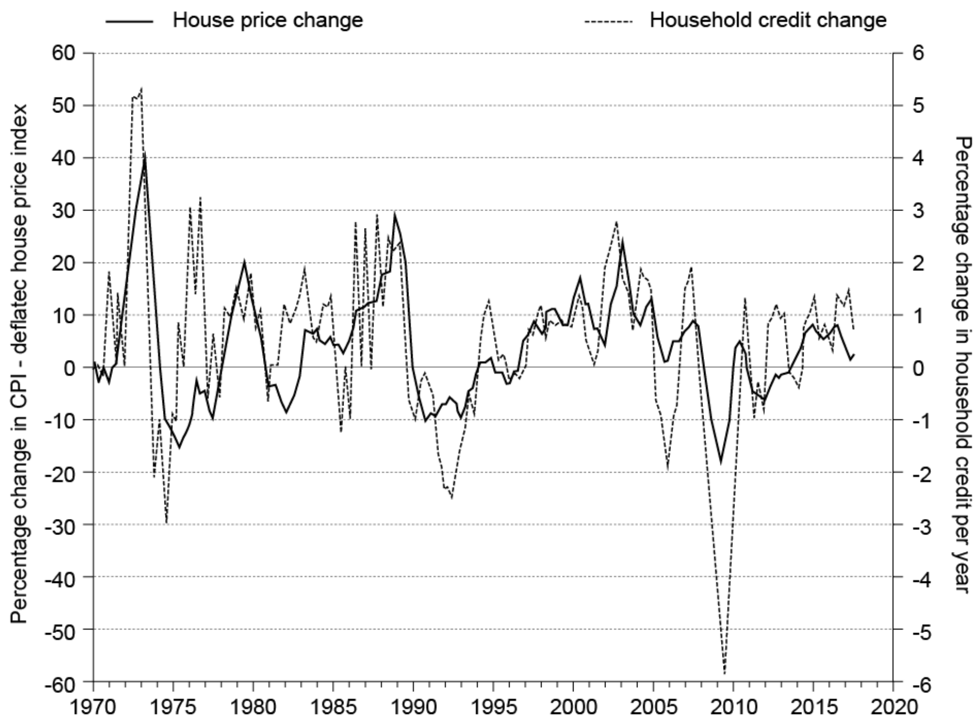

Figure 4.8: UK house price change and household credit change (Source: Keen, 2018)

Ryan-Collins et al (2017: 117 – citing Goodhart and Hoffman, 2008) however, offer some words of warning: '[…] correlation is not causation and it is likely that rising house prices, potentially driven by other factors, lead to an increase in demand for mortgage credit, which itself helps to drive up house prices'. Credit supply (and money creation) is just one of the determinants of price (see Meen, 2011): but increased elasticity in its supply since the 'reregulation' of the 1980s (see Chapter 3) has significantly magnified its role in price sitting. This, at least, is the core of this increasingly popular proposition. Indeed, the catastrophe of the 2009 GFC has focused attention on credit supply, underpinned by financial instruments including the repackaging of bank debt. Analyses of the GFC regularly draw attention to its anchoring in sub-prime lending (see for example, Keen, 2017) and the propensity of banks, ahead of market failure, to pay less attention to the asset on which loans are secured *and* the capacity of borrowers to service debt. Regulators – including the Bank of England – keep a close eye on mortgage lending and household debt. If it runs too far ahead of available housing supply then lending may need to be reined in. The reaction of politicians has traditionally been that credit growth is part of a healthy economy and will support the expansion of home ownership: problems in the housing market (e.g. stretched affordability ratios relative to earnings) are down to suppressed supply. But as observed earlier in this chapter, a combination of new housebuilding (even if the rate is judged inadequate) and credit supply has not propelled English households into homeownership. More than 1 million new homes were delivered by private enterprise in the 10 years to 2016. The number of homeowners fell by 29,000 during the same period. Between 50% and 60% of mortgage loan advances have gone to BTL investors in London in recent years – and 30% elsewhere. Credit is playing an important role in the housing market, driving price inflation and also helping steer the market away from owner-occupation.

Proposition 7: Returning to Proposition 1, above, housebuilding responds to money (credit) supply and not simply to housing need. The housing crisis is a disequilibrium between the supply of money and the supply of the housing asset. For those in need, this leads to declining affordability and crisis of access. But at the centre of this is the intentional refunction of the relationship between housing and the economy. This draws in overseas buyers (Proposition 2), privileges the private sector (Proposition 3) and owner-occupation (Proposition 4), functions on the basis of privileged tax treatment (Proposition 5) and is underpinned by the supply of credit / debt (Proposition 6).

The final proposition, and the conclusion to this chapter, is that all the above is linked. These are not separate pathways but parts of a complex system that generates the housing *cost crisis* that is evident not only in England but in different parts of the world; where growing reliance on private enterprise to build houses meets reduced bureaucratic provision, where credit supplied by a globalised banking system exceeds the realistic supply of homes, and where investors are invited to provide *market support* for the rising prices on which public finances depend. What does all this mean? It means that the unbroken trajectory over the last 30 years has been towards greater housing inequality, measured in terms of access to space and falling rates of owner-occupation. The recent surge in international and domestic investment has done nothing to reverse that trend. Investment in the form of production finance for speculative residential schemes may help to support 'affordable housing' procured through planning gain, but the amount and the actual affordability of that housing appears inadequate, given the widening gap between housing costs and workplace earnings.

Some of the recent studies reviewed in this chapter point to the possibility of slowing the movement of wealth into housing through incremental changes to taxation – for example, by introducing capital gains liability on the onward sale of primary residences, payable on 'final transaction' from the estate of deceased owners, or by reform of council tax; or through reform of bank regulation and lending rules, reconnecting loans to deposits held. But such moves would represent a significant reversal of decades-old support for homeownership, which has more recently become support for house price inflation without any attendant rise in owner-occupation. It is also the case that, as recent history shows, those encountering the most acute housing need are unlikely to benefit from the recession likely to accompany a fall in house prices (given the economic links illustrated in Chapter 3). And even if recession could be avoided, slow and gradual deflation of the housing bubble would not bring fast relief for households currently locked out of the market.

The problem with particular formulations is that they attract adherents – those who, for whatever reason (politics or pragmatism), see an easy link between explanation and action. The purpose of Chapter 2 was to illustrate some of the complexity of factors underpinning housing outcomes, made all the more complex by those outcomes gestating in a contested political space. Most analyses embrace that complexity, searching for answers across different areas of public policy (planning, tax and financial regulation); though ultimately, a chief villain is identified and a broad solution advanced: build more homes (generally or return to council building), reset the tax framework, prioritise the needs of domestic consumers over foreign ones, rein in the banks etc. I will engage in this sort of big button pressing in Chapter 6. But making housing more affordable (moving from commodification to re-communalisation) will not be the primary objective of systemic change. Systemic change, by definition, has broader goals – of which reduced housing costs and increased access will be an important side-effect. The systemic change required in England relates to the economy and the basis of economic growth, which is currently underpinning critical inequalities, challenges to social cohesion, and risking future prosperity.

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