HELP TO BUY: AT WHOSE EXPENSE?

The PricedOut Index

February 2014

A report by

PricedOut.org.uk
The campaign for affordable house prices

Executive Summary

This report finds that by December 2013, more than 200,000 private renters had been priced out of home ownership since the government announced its flagship Help to Buy scheme.

Fewer than 20,000 households have used the scheme to date, but by stimulating a frenzy in the housing market which pushed up prices for first time buyers by 8%, the government made home ownership unaffordable for 245,000 people who could have afforded it before George Osborne's announcement in March 2013.

Using HM Revenue & Customs' percentile breakdown of UK taxpayer incomes, the English Housing Survey's income profile of private renters, and the Office for National Statistics' House Price Index, PricedOut calculated how many people could afford the average first home, based on the assumption that a home is affordable if it is no more than 4 times household income.

The total number of taxpaying private renters who can't afford the average home is now 3.48m, or 66% of all private renters. With the property industry predicting a further rise of 8 percent this year, we can expect another 160,000 renters to be priced out by the end of 2014 – and that assumes that incomes rise by 2.5%.

This is further evidence that the Help to Buy scheme is not the answer to a housing crisis where houses cost an average of 6.7 times income, and is ruining the chances of renters to access home ownership, condemning thousands every month to a lifetime at the mercy of landlords.

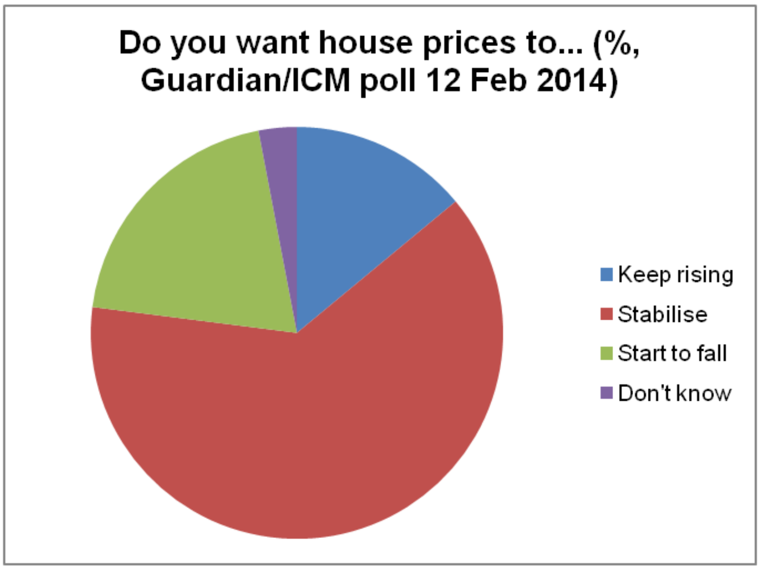
Help to Buy is just another chapter in a decades-long story of Britain's addiction to rising house prices, where the wealthy are encouraged to see property as the fast track to greater riches.

In response to these findings, PricedOut have launched a new manifesto which calls for an end to rising house prices in order to allow incomes to catch up with rampant long term inflation. Starting with a government target of zero percent house price inflation, this could be achieved by a programme of housebuilding, tax reform to deter property speculation and better rights for tenants.

With the publication of this report, PricedOut are inviting the vast majority of the British public who now oppose rising house prices (figure 1) to sign the campaign's new petition for a zero inflation target, which will send a signal to speculators that this country will start treating houses as homes and not financial playthings.

The PricedOut Index will continue to monitor the number of renting taxpayers being failed by the UK housing market.

Figure 1

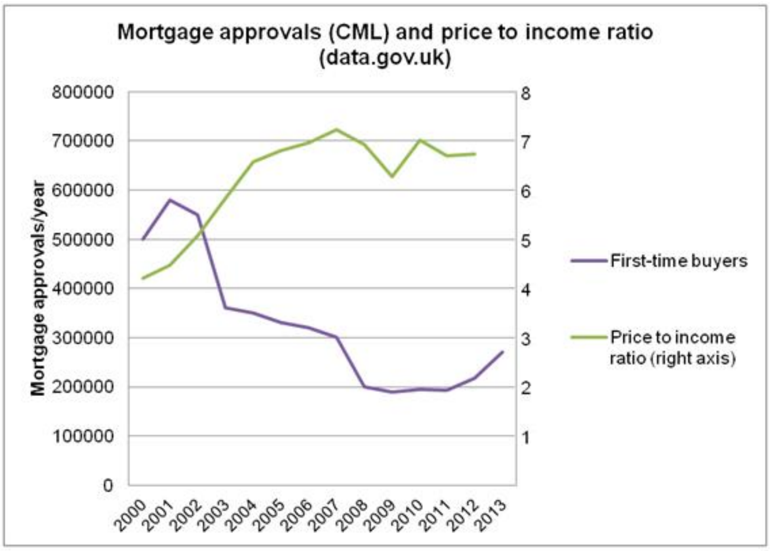


PricedOut.org.uk
The campaign for affordable house prices

Introduction

The UK is undergoing a seismic shift in its housing tenure. Between 2001 and 2011, the number of households in England and Wales renting privately nearly doubled from 1.9 million to 3.6 million (15 percent). A generation after Margaret Thatcher championed home ownership with Right to Buy, the proportion of people owning their home – with a mortgage or otherwise – fell from 69 percent to 64 percent.[1] The number of first-time buyers peaked at nearly 600,000 in 2001, when the ratio of median house price to median income in England was 4.5. After that houses kept getting more expensive, with the ratio reaching 7.2 in 2007, and fewer and fewer people bought their first home, with only 300,000 people entering home ownership by the time the credit crunch struck. Once lenders withdrew high loan-to-value mortgages, this fell to 200,000 and by 2012 had struggled to recover. The price to income ratio remained high at 6.7 (see figure 2).[2] According to the most recent English Housing Survey, there are now 260,000 more households renting (whether privately or in social housing) than paying off a mortgage.[3]

Figure 2



Despite claims from some property professionals that people actually enjoy living in the private rented sector, home ownership is an aspiration of the vast majority of people. Buying a home allows someone to avoid further inflation in housing costs, lets them keep more of what they earn by acquiring equity in an asset, and gives them a place to continue living in once they've stopped paying any money for it. Then there are additional benefits such as freedom from eviction, and the ability to do what you like with your home, from decorating to keeping a pet.

If people have no option but to rent, they spend an average of 30 percent of their income paying a landlord for somewhere to live, get nothing at the end of their tenancy and, if they live all their working lives in rented housing, must continue paying rent when they are old – or turn to the state. Their children also face an unstable upbringing when at any time they could be given 2 months to leave. More widely, large numbers of renters undermine community cohesion because many have no option but to move when rents rise.

The UK government understand the desire of people to own and the value of home ownership to society, and they reckon they have found the answer in government-backed

[1] Census 2011, summarised findings at http://www.theguardian.com/housing-network/2012/dec/12/census-housing-at-a-glance

[2] Data from Council of Mortgage Lenders and Data.gov.uk, http://data.gov.uk/dataset/ratio-of-median-house-price-to-median-earnings

[3] Page 11, English Housing Survey Headline Report, 2011-12 (Published July 2013) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/211288/EHS_Headline_Report_2011-2012.pdf

mortgages, which enable people with a deposit as low as five percent of the property's value to get a mortgage.

The government claim that their Help to Buy scheme is solving the issue of expensive houses, but by announcing it, they have pushed house prices even further out of the reach of renters. Help to Buy has helped nearly 20,000 into home ownership, but we were convinced that many more would be priced out as a result of stimulated house prices.

There are a number of flaws with Help to Buy, including putting public funds at risk by underwriting mortgages, and encouraging the same culture of debt that led to the original housing bubble that popped in 2007-08. Those are side effects of the official purpose of the policy, which is to help young adults who have been priced out of home ownership.

But is the policy even meeting its official purpose? The reason that young adults cannot become home owners is that, despite the crash, house prices are still much higher than most people can afford. At 6.7, the ratio of median house prices to median income in England is nearly twice the ratio in 1997 of 3.5. During the crash it only dipped to a low of 6.3, in 2009.[4]

Houses are too expensive for a number of reasons. There are more people who need a place to live than there are homes being built. Property has become an investment opportunity for those who already have their housing needs met but think that houses rising in value is a perfectly natural and wholesome phenomenon. And home ownership is so much more attractive than insecure, costly private renting, so it is no wonder so many people are willing to compete over a limited supply of homes.

By making it easier for desperate private renters to access mortgages, it means that there are now more people competing over the same limited stock of housing – a recipe for rising prices. Announcing Help to Buy gave a signal to speculators who were waiting for house prices to go up to get investing while prices were at a relatively low level. Between the spring Budget and the autumn launch of the Help to Buy mortgage guarantee scheme, house prices increased by 5.5 percent.[5]

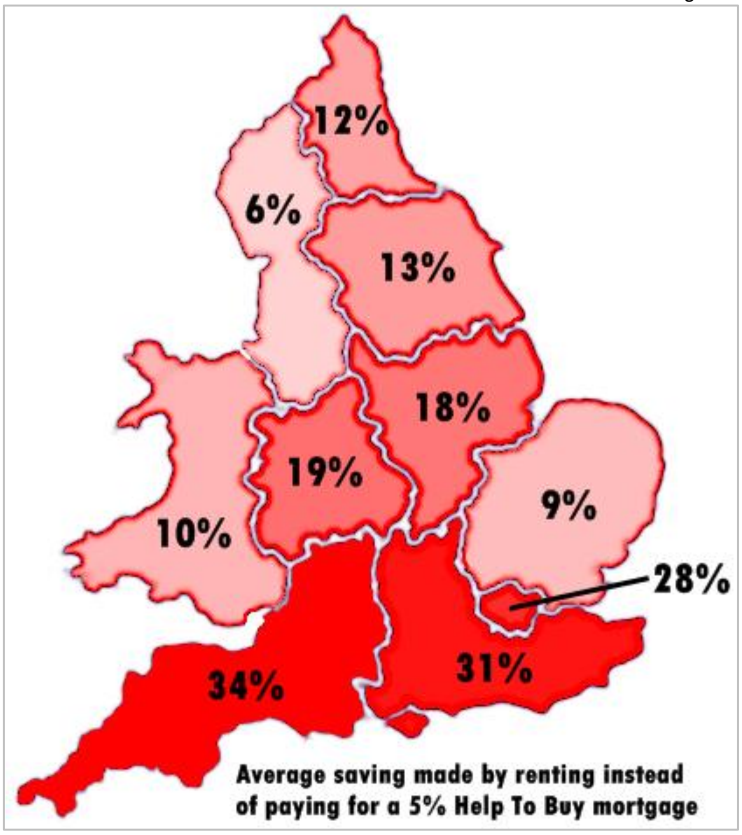
As the government hoped, builders also took the announcement as a signal that house prices would rise, which gave them an impetus to build – but they only do enough to maximise their profits, and not enough to depress prices.[6] Housebuilding starts have picked up, but they are still far off the level they need to be to meet demand.[7] Several forecasters predicted that, as Help to Buy takes root and more people come to the market, house prices will keep rising this year – at eight percent.[8]

The rise in prices will not come as a surprise to the Government. George Osborne was quoted telling Cabinet colleagues, "Hopefully we will get a little housing boom and everyone will be happy as property values go up." It's clear that the government is unofficially chasing the votes of the comfortably off with this policy, as well as those of the young.[9]

---

[4] Data.gov.uk, ibid.
[5] Change between March 2013 and October 2013, ONS Mix-adjusted average house prices
[6] Shelter, http://blog.shelter.org.uk/2013/08/can-we-rely-on-the-big-guys/
[7] David Cameron MP and Ed Miliband MP, Commons Hansard, 15 January 2014, c846
[8] Guardian, 26 Dec 2013, http://www.theguardian.com/money/2013/dec/26/uk-house-prices-expected-rise-2014
[9] http://www.independent.co.uk/incoming/inside-westminster-george-osbornes-housing-boom-will-echo-into-the-future-8869835.html

Figure 3



While the packaging suggests that Help to Buy is giving something back to young adults who have borne the brunt of the recession and austerity, whether it will really help them is another question. We already know that someone taking out a Help to Buy mortgage with a five percent deposit will be paying around five percent interest, which means that monthly repayments on an average first time buyer property will be considerably higher than an average rental (figure 3)[10]. This, for a start, will put many off using the scheme.

Leaving aside questions of whether Help to Buy is a good policy (it isn't), for the policy to be successful on the government's (official) terms, more people need to benefit from it than lose out. As of January 2013, around 18,875 households have benefited from the scheme, though the majority have bought new houses through the equity loan scheme, while 6000 have "put in offers on homes and applied for a Help to Buy mortgage" – not all are homeowners yet.[11]

Between the March announcement of Help to Buy and December 2013, the most recent month for which the ONS has published figures, house prices for first time buyers rose from £175,000 to £189,000.[12] With wages still fairly stagnant, it is likely that during this period some people who are currently renting saw affordability of home ownership slip from their grasp. We decided to estimate just how many.

[10] PricedOut, Help to Buy won't help the average first time buyer, 15 November 2013
[11] DCLG, https://www.gov.uk/government/statistical-data-sets/help-to-buy-equity-loan-scheme-monthly-statistics; Sajid Javid MP, Treasury Minister, Commons Hansard, 10 February 2014, c435W
[12] ONS, Mix-adjusted average house prices by type of buyer, UK http://www.ons.gov.uk/ons/rel/hpi/house-price-index/december-2013/index.html

Methodology

We start with the assumption that a house is affordable if the price is four times one's income or less.

On 31 January, HM Revenue and Customs published a percentile breakdown of personal pre-tax income for the tax year 2011-12. 30.8 million UK taxpayers are covered by this data so each one percent represents 308,000 people. For every 308,000 we have a median pre-tax income, from £7740 at the bottom end, to £147,000 in the top one percent.[13]

In the interests of simplicity, we assume that most people would buy as one of a couple, so by multiplying one cohort's income by eight we can find the maximum house price that a given couple in that cohort could afford.

The majority of taxpayers are already home owners, so we need to find the numbers in each cohort who would be affected by rising house prices. The English Housing Survey breaks down households in each housing tenure by income. There are a total of 22 million households covered by this, of which 3.8 million are renting in the private sector. For example, of the four million households earning between £20,000 and £30,000, 774,000, or 19 percent, are in the private rented sector. For each income bracket we find the percentage who rented privately.[14]

We then break the total number of households into ten deciles and work out roughly where each 2.2 million households stand on the income scale. We can then apply the corresponding proportion who are renting privately to our income percentiles.[15] We estimate that percentiles one to ten comprise 24% private renters, or 73,920 in each percentile. At the very top, where only 11% rent privately, each percentile has 33,880 potential home owners. In total we estimate that there are 5.2 million taxpaying private renters in the UK. The decile we are most interested in is 50-60, where the question of affordability is affecting people right now.

We should note that we have not included social tenants because many are eligible to access home ownership through Right to Buy, and for others it is a long-term alternative to home ownership. This is very much not the case for private renters, 79% of whom aspire to home ownership.[16] The EHS data does not capture people who live rent-free, unemployed young people or those still in education (or, indeed, those yet to start school or be born), so our estimate will be an understatement of the true scale of the problem.

Before we can find out how many taxpayers are priced out, we need to bring the data as in line with each other chronologically as we reasonably can. Our detailed income data only goes up to March 2012, and we want to know how affordable houses were a year later, then for the latest set of figures. The ONS's Average Weekly Earnings survey (AWE) found that incomes had rose by 0.6 percent between March 2012 and March 2013, then by 0.9 percent

[13] Table 3.1a, Percentile points from 1 to 99 for total income before and after tax, 1999-00 to 2011-12, https://www.gov.uk/government/publications/personal-incomes-statistics-tables-31-to-311-for-the-tax-year-2011-to-2012

[14] Table FA1331 (S188): Gross annual income of household reference person and partner by tenure, 2011-12, https://www.gov.uk/government/statistical-data-sets/tenure-trends-and-cross-tenure-analysis

[15] We note that the EHS looks at household incomes in England while the HMRC figures are for individuals throughout the UK, but we believe that the overall distribution will not differ significantly.

[16] Halifax, Generation Rent: A Society Divided? (2013), http://www.lloydsbankinggroup.com/globalassets/documents/media/press-releases/halifax/2013/1706_halifax_generation_report.pdf

between March 2013 and November 2013, the latest set of figures we have.[17] Without a distribution breakdown of wage increases, we apply this figure to all incomes.

First, we want to set a benchmark of how many people were priced out before George Osborne made his fateful announcement on 20th March 2013. The average first time buyer house in March 2013 cost £175,000.[18] A couple in percentile 55, with a combined income of £44,466, could afford that, but a couple in percentile 54, on a combined income of £43,660, could not afford the average starter home. We add up the people in each cohort from 54 down and work out how many people above the median would still be left behind by house prices. We do this by finding the difference between percentile 54's affordable house price and the average house price, as a proportion of the difference between percentile 54's affordable house price and percentile 55's affordable house price. We assume that the income distribution within percentiles is even. We then multiply this ratio by the number of renters in the cohort, and, to avoid double counting the half of the cohort above the percentile median, we subtract half of the 52,360. For percentile 54, there are some who would still be able to afford a £175,000 house, so we take 14789 from the total of percentiles 1 to 54.

We follow the same process for the December 2013 average first house price, applying the 0.9 percent wage increase to the income distribution, and then the average house price if we assume that the industry prediction of 8% inflation comes true, and earnings rise by 2.5%, the forecast for 2014.[19]

The numbers that result are an indication of the number of people adversely affected by high and rising house prices, using what we believe to be the best publically available data and the most straightforward method of finding the figures we are interested in. Every private renter is different, with their own career path, aspirations, and local housing situations. For example, a couple on an income of £30,000 in Gateshead would be able to buy a house, while a couple earning ten grand more in London were priced out years ago. To take this into account is impossible, so we have to ignore all of this as we seek out a single number, and trust that individual and local differences cancel each other out.

[17] AWE Regular Pay Index, http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-292276

[18] Office for National Statistics, House Price Index, January 2014, http://www.ons.gov.uk/ons/rel/hpi/house-price-index/november-2013/stb-november-2013.html

[19] Resolution Foundation, The State of Living Standards, February 2014, p48

Findings

In March 2013, we estimate there were 3.24 million taxpaying private renters who could not afford the average first-time buyer house – that is 61 percent of the 5.26 million in total. Nine months later, after the Help to Buy scheme had begun to stimulate the housing market, the price of the average first home had increased by eight percent to £189,000. We estimate that this increase priced out 245,000 renters from home ownership, bringing the total to 3.48 million, or 66 percent of all private renters. In comparison, fewer than 40,000 taxpayers (assuming that most of the 18,875 households have two earners) have benefited from Help to Buy to date.

If the common forecast of 8 percent house price inflation for 2014 is correct, then we estimate that another 160,000 will be priced out, bringing the total number of private renters whose dreams of home ownership have been snatched away since Help to Buy was announced to 406,000. This assumes that earnings rise by 2.5%. In total, 3.64 million taxpaying private renters will be priced out by the end of the year – that is 69% of the whole sector. See table 1 for full details.

Table 1

Month	Average first time house price	Income percentile that can no longer afford to buy	Joint income of median	Number of renters in percentile and below	Top up to account for rest of percentile	Total priced out	Total priced out since Help to Buy	% priced out
March 2013	£175,000	54	£43,660	3,289,440	-14789	3.24m	-	61%
December 2013	£189,000	58	£47,098	3,482,468	-16412	3.48m	245,388	66%
End 2014 (8% prediction)	£204,120	61	£50,774	3,655,960	-13246	3.64m	405,634	69%

It is true that around 268,800 households bought their first house in 2013, according to CML figures – a marked increase since 2012.[20] However, this number does not cancel out the numbers priced out – we would expect that most first-time buyers would already be in the upper end of the income scale and so their overall affordability would not have been affected by the rise in house prices.

It is worth noting that other factors may have fuelled rising house prices, including Funding for Lending (another Treasury policy, which was scrapped in late 2013), but industry consensus is that Help to Buy, and the prospect of more buyers in the market, has been a major driver of house prices.[21]

It is also still early days for the mortgage guarantee scheme, and many more people may use it, but the government have a lot of catching up to do to achieve even a semblance of success.

[20] Council of Mortgage Lenders, http://www.cml.org.uk/cml/media/press/3816

[21] For example, see Nigel Wilson's comments to the Telegraph, 18 Jan 2014, http://www.telegraph.co.uk/finance/economics/10582069/Call-to-scrap-Help-to-Buy-in-London-as-prices-become-absurd.html

Conclusion

If the government want to help people who are stuck renting, they are going completely the wrong way about it. By giving easier access to credit to help small numbers of people into home ownership, the Coalition is fuelling inflation that makes houses unaffordable for more than six times as many. This PricedOut Index shows exactly how catastrophic Help to Buy has been and will be for hundreds of thousands of people whom the government claim the policy helps. If the government really want to help private renters buy a place of their own, the first thing they should do is scrap this travesty, which is clearly failing – even on the government's own terms.

Aside from the 19,000 households that are now paying off an expensive mortgage, the only people Help to Buy could conceivably benefit are those who already own a home and will now be able to sell it for a higher profit because of the rise in prices. But even these people might need to buy a bigger house to accommodate a growing family, in which case they'll have to fork out even more than they'll make from selling their current home. Or they are approaching retirement and have adult children of their own who are unable to save a deposit – they're faced with a dilemma: do I give my offspring a hand with the deposit or do I ensure I can support myself in retirement? Several polls in the past year indicate that most people do not want house prices to go any higher.[22]

The government have failed to grasp the fact that rising house prices are not actually a healthy way to get richer, and they certainly do not benefit society as a whole. Houses are a basic human need so if they keep getting more expensive, more people will have to spend more of their hard-earned income to keep a roof over their heads. That means that they have less money to save – to invest in growing businesses – and less money to spend on nice things – goods and services that put people in jobs. Instead more money goes to the already wealthy – the land owners who can sell their plots at inflated prices to developers, and the landlords who can charge their captive market whatever they like.

Politicians need to ask themselves whose side they're on: the wealthy or the workers. If it's the latter, there is an alternative to Help to Buy, but it requires an acceptance that house prices should not rise any further.

[22] In addition to the latest Guardian/ICM poll in the Executive Summary, Ipsos Mori offers another example: http://www.ipsos-mori.com/researchpublications/researcharchive/3290/Public-House-price-rises-are-not-good-for-Britain.aspx

Solution – The PricedOut Manifesto

We need to stop house prices leaving so many people behind, and let incomes catch up with the cost of housing so this basic human need reaches more affordable levels.

We need:

- A target of zero house price inflation, to give people's salaries a chance to catch up
- A comprehensive housebuilding programme in areas that need it most
- An end to incentives which encourage speculation in house prices and put first-time buyers at a disadvantage in the market
- Improved tenants' rights to ensure private rented housing is an acceptable place to live

1. **End house price inflation**

The government should aim to keep house prices stable with as little inflation as possible.

While would-be first-time buyers would personally love to see house prices fall overnight, this would jeopardise economic growth and put many people in negative equity. A zero-inflation target is the most realistic option.

By making sure house prices don't rise in cash terms, wages will have a chance to catch up. The average house price in 2012 was 6.7 times median pre-tax income. With zero house price inflation and if wages rise at an average of 3 percent per year, the ratio will fall to 5 after ten years. This would still be higher than truly affordable levels, but would allow many more people to buy a home than can right now. If the government delays in any way, then we will sink deeper into crisis and it will take even longer to get out.

The government can't legislate to stop prices going up, and will need to use several policies to achieve zero inflation. However, sending a signal to the market that house prices will not keep rising will tell wealthy investors that housing is no longer a magic money tree – dissuading them from entering the market will give people who want houses to live in a chance of buying one at a decent price.

Moreover, if speculators don't expect prices to rise any further they will finally start building on the land they have been hoarding, and the cost of land will stop rising.

2. **Build 300,000 homes a year**

Every year, 250,000 new households are created as young people leave home and older people live longer. That means we need 250,000 new houses to be built per year, but because there has been a shortfall, we need to play catch-up.

Building triple the number of houses we currently do means the construction sector has to pull out all the stops. We need to:

- **Allow local authorities to borrow to build –** investing in social housing will allow more people to escape the private rented sector and push rents down, which will also help the government save some of the £20 billion it currently spends on housing benefit. At present councils are stopped from borrowing unless they meet a lot of conditions to sell off existing stock. In addition councils that build houses face having to sell them at a loss because of massive discounts they are forced to give under Right to Buy. The scheme needs to be reformed in order to give councils a reason to build.
- **Support self-build and smaller builders –** the construction industry is currently concentrated in too few hands, which means that consumers don't benefit from healthy market competition. Alternatives such as smaller builders and custom build can provide a lot of the homes we need. The government should ensure that smaller builders have the opportunity to benefit from public investment, and provide incentives such as cheaper land to people who want to contract their own builder to put up their house.
- **Build on greenfield land, including on existing green belt –** much of the green belt is not aesthetically valuable and prevents people from living close to where they work. Cities like London and Oxford could be the engine of the country's growth but young adults cannot afford to live there. Countryside can remain protected through use of swaps.
- **Create new towns in areas with acute housing shortages –** houses are so desperately needed in the South and the East of England that new towns, potentially in the style of "Garden Cities", will help alleviate the crisis facing priced out first-time buyers. However, they should not be seen as a panacea – the UK's biggest new town Milton Keynes has never built more than 3,500 homes per year, so expansions of existing developments will also be required.
- **Build houses that people actually want –** we build the smallest houses in the western world; consumers deserve better, and most people want a garden. Local communities resist development they fear will be an eyesore, but if local planning consultations engaged with the people who will live in new houses, resulting developments will be more appealing and more will be built.

3. Reform the property tax system

People who benefit from rising house prices have done nothing to earn it. In many cases they have benefited from renters who work for a living, boosting the local economy, thus making their property's location a nice place to live. The tenants get nothing in return except higher rents. It is about time we started taxing property wealth in order to treat houses as a place to live and work as the best way to make a living.

- **A higher rate of capital gains tax on property –** investors currently pay capital gains tax on homes that aren't their primary residence (foreign investors will only start paying it on properties bought after 2015). For most landlords, the reason they own properties for rent is to make capital gain. They would be less inclined to enter the market and price out first-time buyers if they had to pay a higher rate of capital gains tax.

- **Scrap Mortgage Interest Relief At Source (MIRAS) for landlords** – landlords qualify for tax relief on their mortgage interest – unlike home owners – which means that they make more money from investing in the housing market, at the expense of people who want to buy a house to live in. This is one solution to the problem that other forms of tax on landlords – on rental income and capital gains – are easier to avoid.
- **Punitive rates of council tax on empty properties** – in many parts of the country, investors buy property and don't even let it out, making money just on the increase in value. Councils are currently able to levy double the rate of council tax on empty properties, but this is a drop in the ocean for multimillionaire owners. Councils should be allowed to levy whatever they like on empty properties, depending on the local housing need.
- **Revaluation of council tax** – council tax bands have been the same for two decades, meaning that during the period when house prices have quadrupled, owners of very expensive properties do not pay tax that reflects the house's value. We now have a perverse situation where someone living in a small house in Bradford is paying more council tax than a multimillionaire in Kensington. There are huge reservoirs of unearned wealth which could be redistributed if the council tax system was updated with additional bands at the top end of the scale.
- **Effective use of land registration data** – HM Land Registry should work with HM Revenue & Customs to more effectively tackle tax evaders who do not declare rental income, and with local governments to help them more easily tackle rogue landlords.

4. Reform the private rented sector

Private rented housing is not a choice. Tenants are insecure, paying inflated rents because there is no escape, and suffer poor conditions in neglected properties. By strengthening tenants' rights, conditions in the sector will improve to the extent that renting will become a genuine choice – and fewer people will feel desperate to escape, thereby limiting pressure on prices.

- **Abolish no-fault eviction** – tenants can be given two months' notice to move out by their landlord for no reason. This puts many off asking for improvements or maintenance for fear of being evicted in retaliation. Many landlords are helpful and professional, but with 35% of private rented houses failing decency standards, it's clear that many tenants feel too intimidated to complain.
- **Ban letting agent fees** – letting agents receive a large cut of the rent from the landlord, so there is really no reason for them to extract more from tenants. Because tenants face one-off costs of hundreds of pounds every time they move, they are more likely to stay at the end of their tenancy even if the rent goes up. Without the threat of letting agent fees, tenants would be more willing to use the threat of leaving to bargain rent down.
- **Impose longer term contracts** – tenants need more stability, so five-year tenancies should be the default practice, with limited rent increases and the option for the tenant to end the contract early – to move for work, for example. This would benefit many landlords who would prefer to keep reliable tenants who look after the property and pay rent on time. Some landlords may complain that they have the right to sell at

any point, but they need to start understanding that their property is a home, not a financial plaything – if they're serious about being a supplier in the market, they need to be in it for the long term.

Finally, the government should appoint a **Cabinet Minister** with responsibility for Housing, and **end the Help to Buy scheme** as soon as possible.