The Hoarding of Housing

An Intergenerational Time-bomb

by Dr Tony Vickers[1]

In all the coverage of the "Housing Crisis", hardly anything is said about how our existing housing stock is being used. Yet even the most optimistic forecasts of potential rates of new build will only add one or two percent per year to the total stock – barely keeping up with the rate of new household formation - whereas policies that help make more effective use of the *already built* 98% rarely get a mention.

The 2012 Intergenerational Foundation (IF) report showed that the crisis is "not principally about Britain having enough housing but about the way it is shared between older and younger generations" and that "under-occupation of houses is encouraged by the tax system", resulting in 25 million surplus bedrooms. The housing crisis is in fact a symptom of a much wider social malaise: the growing inter-generational divide in which "the money borrowed by young families" to enable them to afford the smallest new homes in Europe ends up "in the bank accounts of older households"[2].

There are three themes in the report:

A. The mismatch between housing need and actual allocation in the supposed 'market sector'. The 'family home' is increasingly not occupied by anyone actually raising a family. Furthermore, by the time a family *with children* can afford to buy a home with enough bedrooms for the kids to sleep in, lenders except 'the bank of mum and dad' (BMD) will soon turn them down for a mortgage. First-time buyers without BMD are now aged 37 on average: a typical 25-year loan will leave little time left, after its repayment, to save for that pension before retirement comes!

1. **More than a third of total English housing stock is under-occupied**, i.e. there is *more than* one spare bedroom. The figure was 1/5 in 1971 – but most of the rise is since 2003. Whereas the 'bedroom tax' on non-pensioner occupiers of rented housing is based on only the *exact* number of bedrooms a household '*needs'*, owner-occupiers – including 80%+ of over-55s but well under half those families with dependent children – have no incentive whatsoever to down-size. Probably 90% of spare bedrooms are in pensioners' owner-occupied properties and many are probably not even used on family visits.
2. **Only in the over-65 age-group has owner-occupation increased since 1991**. Between 1981 and 2009, the proportion of people aged over 65 who were owner-occupiers – almost all of them under-

[1] The title of this paper and most of the content is taken from a report by Intergenerational Foundation (IF) in 2011, since updated by IF with ResPublica in Dec 2014.

[2] Spencer Dale, Bank of England Chief Economist

occupying homes that *families* desperately need – rose from under half to ¾: an increase of 53%. And they are rattling around, in style!

3. **There will be 4 million single-person pensioner households by 2026**, a rise of 136% in 45 years. A fifth of all pensioner households will have a second home as well – and most of those will also own one or more buy-to-let properties, which offer better returns than pension funds[3].
4. **Households living in the private rented sector are set to double between 2007 and 2020**. They doubled between 1994 and 2012. The sector currently accounts for 2/3 of all new households. As Greg Clark (now Communities Secretary) said when Minister for Housing, referring to lack of security of tenure: "The private rented sector is destroying family life".

B. The Link with a Growing Wealth Gap. It is today's pensioners who mainly benefited from right-to-buy in the 1980s, since when we have seen a dramatic fall in rates of new build, easy lending, consequent demand-led price rises, and a huge growth in the proportion of household wealth held as 'bricks and mortar' (actually it is *land value*).

5. **Since 1980 (when it roughly equalled GDP), total home-owner household equity has almost doubled in real terms**. In 2007, it had reached 185% of GDP. It fell back slightly after the global financial crisis but is now rising again.
6. **As a proportion of net personal wealth, dwellings have increased from 18% in 1960 to about 60%**. By 1990, the figure was 50% and it rose substantially in the following 17 years. The increase in personal wealth held in this form has been far faster than the increase in earnings: an owner-occupier household has generally become 'richer' every day by not working than by working! No so for renters.
7. **Housing wealth of older home-owners will continue to grow strongly**: by 40% by 2030. The pensions industry relies on this – for now. But it is unsustainable, when one looks at the plight of younger families without home-owning parents.

C. The Inter-generational Debt Gap. While housing wealth grew in the past 20 years, it was exceeded by the household debt accumulated over the same period – mostly secured against owner-occupied homes and fuelling house price rises. Increasingly though, the personal debt of younger families unable to buy a home will *not* be secured.

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[3] To give George Osborne some credit, his July 2015 Budget included removal of tax relief on rental income for high-rate tax-paying owners of buy-to-let properties, from 2017, which has already led to many owners selling. For some, there will now be *no* net profit in being a landlord. However there is no economic or political justification for giving *any* tax relief to *any* buy-to-let landlords, because it enables them to out-bid first-time buyers wanting to owner-occupy and hence puts a brake on growth of owner-occupation.

8. **More than ¾ of household debt in 2009 was secured on dwellings**. Average household debt – and the proportion secured on dwellings – is far higher in Britain than any other major economy. Almost all the increase since 2002 has been mortgage related[4].
9. **Mortgage lending tripled from 1999 to 2007**. The household sector became a net borrower – with younger households accounting for almost all the increase.
10. **Mortgage repayment by working families is limiting their ability to save for retirement**. Having rented their homes for twice as long as *their* parents had to, today's parents (who, unlike their *pensioner* parents, are also likely to have incurred student debts and to have many credit cards) have much less residual lifetime earnings from which to save.
11. **Greater longevity means that inherited housing wealth comes too late to help most younger families**. The children of those who inherit are likely to have left home. As with Japan already, today's children are quite likely to inherit their parents' mortgage *debt*, not a lump sum, from their parent's 'estate'! This will further undermine the entire mortgage and pensions businesses.

There are many reasons why older people 'hoard' their over-sized homes. Yet the British do it more than others, including the Americans – where probability of moving *increases* as people pass age 60 (here it *decreases*). Memories, grandchildrens' visits, staying near friends, keeping a garden – all militate against down-sizing as one gets older. But the facts show how unsustainable and damaging to the national economy and society this is likely to be. Properties occupied by frail elderly are generally less well maintained and the elderly home-owners themselves become dependent and a greater burden on health and social services than if they down-size.

What are the solutions?

IF includes **Land Value Taxation[5]** as one answer: giving a strong financial incentive for all households to minimise under-occupation and cease to treat their home as a principal store of wealth.

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[4] Mortgage lending accounts for about £7 out of every £8 that banks have lent since 'quantitative easing' was begun under the Coalition. This has not helped invest in *new* homes or roads nor increased industrial capacity: it has merely boosted the balance sheets of banks and property owners and made another property price 'bubble' more likely to burst.

[5] ALTER's proposals for introducing LVT in Britain could actually result in *increased* home ownership, which is somewhat counter-intuitive. The key factor is what we call a Homestead Allowance (HA): a tax-free element of LVT which would be linked to the Local Housing Allowance (LHA) used to determine Housing Benefit (HB). If a tenant was sold at least that proportion of the equity of their rented home, *they* could claim HA: the landlord could *never* claim HA, because it can only be claimed for a *principal* home. So landlords of private rented homes would have an incentive to help their tenants get a toe-hold on the property ladder. HA would also help protect income-poor older owner-occupiers from being 'forced' to sell a modestly under-occupied home: the 'poor widow' argument is often used to attack LVT.

Other policies would help too, in the short term and without LVT. Many also relate to tax:-

- Ending single persons' council **tax** discount
- Exempting down-sizing home-buyers from Stamp Duty Land **Tax**
- Moving from household density (which leads to small homes) to bedroom density (which would encourage more larger new homes) as a planning guideline or target
- Ending Capital Gains **Tax** exemption for principal residences, as well as for secondary residences. Alternatively treat capital value accrual of any residence as taxable income (rather like Schedule A income tax).
- Withdrawal of some universal benefits for households in high-value homes.
- Getting tough with lenders. Homeowners disproportionately benefit from the 'moral hazard' of bailing out the banks.

Conclusion. This is not an attempt to devalue home ownership, nor should older home-owners be blamed for what is entirely rational economic behaviour by them. Despite being priced out of the housing market in so many ways, young people still overwhelmingly aspire to own their own homes. Yet it is estimated that on current trends barely a half of those aged 20 now will ever buy one. Inter-generational unfairness in this market is systemic and is probably a major factor in creating disillusion more generally among young people. Until it is corrected by some of the measures listed above, it is like a time-bomb ticking in our society. Even a government that depends on older voters for power should realise that, without action, the housing market is set to blow up in its face.