

Fixing our rental sector

Dave Treanor Nov 2018

Tenants in the UK are treated with very little respect. How can anyone make a home in a property where the landlord can repossess at two months' notice?

It does not have to be like that. Elsewhere in Europe tenants can only be evicted if they break the terms of their tenancy agreement and are often less dependent on a landlord for day to day repairs and maintenance. Many families are happy to live in good quality rented housing, without paying extortionate rents. We must end no-fault evictions. But that is not the whole story.

At the root of the problem is a misguided policy to make Britain a home-owning democracy. Since the seventies taxes on the benefits of home-ownership have been reduced, while raising taxes on the rental sector. Taxes levied on landlords invariably push up rents, widening the wealth gap between owner-occupiers and tenants. A drop in the availability of rented housing is never going to reduce rents or improve the choices faced by tenants.

Measures aimed at helping more people to own their own home have actually made it less affordable. Help-to-Buy was supposed to lift more people onto the housing ladder and boost housing construction. It had the opposite effect. Before it was introduced in 2013 new house building in London averaged 42,392 a year. Since 'Help to Buy' it fell to 35,274 per year, while London house prices rose by 48%. This in turn had a knock-on impact on rents, which also rose in response to rising house prices.

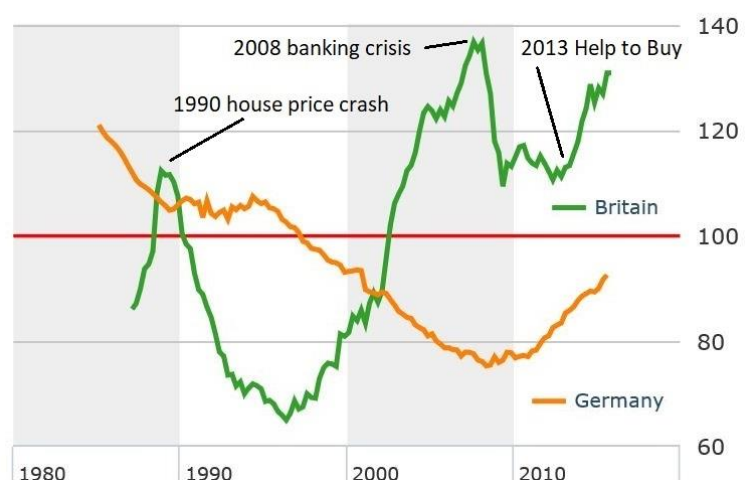
The only way to make housing more affordable is to tackle the underlying causes of house prices rising faster than earnings. That requires long-term changes in housing policy, much longer than our electoral cycles tend to promote. The poorest will always suffer the most from any shortage and require additional help, but focussing all subsidies at the bottom end of the market widens the poverty trap and often raises costs for those that just fail to qualify. Solutions are required that impact across the whole of the housing market.

There are a number of reasons why housing in Germany tends to be of better quality and more affordable than the UK. There are few circumstances where a tenant who pays their rent and abides by the terms of their tenancy can be evicted. They take pride in looking after their homes, with more control over repairs and maintenance. It is not uncommon for tenants to upgrade their kitchens and bathrooms by agreement with their landlord who may contribute to some of the cost. In the UK this is only possible where you own your own home. As a result, many middle-income Germans are content to live in rented housing.

House prices in Germany are more stable than in the UK, and on average across the country have become more affordable over the last thirty years, with prices rising by less than earnings. Rented housing is taxed no more heavily than home-ownership. Germans get just as good a return by investing in their industries as they would from buying their

The Economist house-price index

Prices against average income



Compares house prices against average disposable income per person, where 100 is equal to the long-run average of the relationship

Sources: The Economist; Deutsche Bundesbank; OECD; ONS

own home. This takes much of the heat out of their housing market. It may also help explain the success of German manufacturing.

Most mortgage loans in Germany are restricted to 80% of the property value, limiting the amount a household can afford to pay, unlike the UK where excessive borrowing fuels the growth in house prices.

Their approach to social housing is also interesting. None of it is intended to remain as social housing forever. In return for subsidies from local, regional or central government to deal with a shortage of affordable housing, new homes are built and let to low-income households from a housing waiting list at no more than 80% of market rents. After an agreed period of between twenty and thirty years the obligation to let at below market rents tapers off, and they can be sold. Most of this housing was originally provided by not-for-profit housing companies, some of which were set up by the municipalities.

Much of the privately rented housing in Germany was constructed with subsidies and initially let on social housing terms by a mix of private and non-profit landlords. These were professionally managed on generous tenancy terms, laying the foundations for a much fairer private rental sector. Even so, two-thirds of rented housing is now held by individuals who typically let one or two properties. The rest is provided by a combination of municipal companies, co-operatives and private companies.

On new housing in the UK developers are expected to provide a proportion of affordable housing as a condition of planning permission. Regeneration schemes around London and elsewhere fund the replacement of sub-standard properties on council and social housing estates by raising housing density and cross-subsidising the provision of affordable housing from sale of the additional housing. How much affordable housing is viable depends on the difference in value it generates compared with home-ownership. Any grant funding available is used to raise the provision of affordable housing. Social housing rents make it worth 40% to 50% of the value of housing for sale. At London Living Rent levels it is usually worth 80% to 85%, and at market rents in London typically 95% of open market value, although this varies from one area to another.

There is scope to sell a good proportion of the additional housing to non-profit housing organisations letting it out on secure tenancies at market rents, instead of selling it on the open market. If regeneration schemes in my local borough of Merton could build one third affordable housing, one-third at market rent on long-term tenancies and one third for sale they would be in a much better position to meet local housing need. Under favourable circumstances that should be achievable. Under present plans they propose to sell almost 60%, much of which will be bought by people priced out of more expensive London boroughs.

The uncertainties of Brexit have weakened the housing market in London, with prices falling recently in most areas. Developers rarely sell at less than they expected when they bought the site. It makes more economic sense for them to stop building than hang on to completed housing until the market recovers. This inevitably results in a slow-down in housing construction. Demand is much steadier in the rental market, and the commercial sector is finding build-for-rent at the top end of the rental market increasingly attractive.

If housing associations had invested in secure market rent over the last thirty years, there would now be a substantial stock of well managed housing on which nobody was extracting capital gains. This would reduce the pressure on rents and improve the choice of housing for those who cannot afford to buy and would never reach the head of the queue for social housing. It is never too late to change.

We should learn from the German experience. It requires little if any subsidy for a social housing organisation to develop secure market rent alongside more affordable options. Some are already doing it on a small scale. I can think of few policies that could have more of an impact at such a low cost. All it needs is the political will to do it.