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The Credit Crunch: Short Term
UK Housing Market Correction
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The Credit Crunch: Short Term UK Housing Market Correction or Long Term Tipping Point?

Abstract

Six years on in 2014 the credit crunch seems more than a short term housing market cyclical correction to house prices. The boom and bust of the noughties both revealed and exacerbated long term trends in the housing market in the UK. But is there sufficient evidence to suggest a fundamental change to the housing system. Home ownership has peaked and there has been a dramatic expansion of the private rented sector. Economic prospects have been transformed from persistent growth to long term stagnation with the prospect of ten years of fiscal austerity and falling real incomes. At the same time there is potential regime change in the accessibility of mortgage finance. The tightening of public finances has deflated expectations. The focus of the impact has been the younger generation who face a cluster of disadvantages – in the housing market but also in the labour market and in education debts. Traditional aspirations are being rethought in the face of long term market constraints. These issues will be discussed within a framework defined by a (macro) demand function for housing and the answer to the question is seen to depend on the nature of ultimate housing policy and supply responses.
The initial impact of the global financial crisis that began in 2007 on the UK housing market was a consistent fall in house prices across all regions. Seven years later at the end of 2014 prices in all regions except London and the South East of England have not recovered to the peak of the noughties boom. Nevertheless the current government’s recent policy responses to support home ownership have been subject to considerable debate, with many commentators expressing fears of an impending bubble as prices begin to recover. At the same time there is a growing belief that the UK housing market has experienced structural change. In other words there is a structural break in the housing market and that longstanding relationships and dynamics have changed. A number of studies, for example Heywood (2011) and Whitehead et al (2012), have projected forward recent decline in home ownership and growth of the private rented sector (PRS) as a long term trend.

The paper examines whether the combination of long house price boom followed by unprecedented economic downturn has sown the seeds for fundamental housing market and tenure change. It also considers the role of policy. While the paper relates to the whole of the UK in some instances statistical sources apply only to England, which represents 84% of the total population. The starting point of the paper is that there are fundamental macroeconomic variables that influence housing demand and prices, namely economic growth, interest rates and the availability of mortgage finance. There are also longer term demand influences such as demographic trends, the relative cost and availability of housing in alternative tenures, and supply (Jones, 2012a). The analysis is considered within a framework that decomposes the internal dynamics of a housing cycle.

This is partly assessed by examining housing stress indicators over phases of the latest long housing ‘cycle’. Stress/need measures can incorporate a range of forms including sharing/overcrowding/concealed households, poor housing conditions, mortgage and rent arrears and homelessness (Bramley et al, 2010). Many of these are linked to the level of housing affordability, and it extends and updates the analysis of Jones and Watkins (2009). Statistics on tenure are drawn from the English Housing Survey (ONS, 2014a) and prices from the Halifax index (other indices differ marginally) (Halifax, 2015a). It begins by reviewing the detail of the long upward march of house prices in the UK from the mid-1990s and the underlying consequences of the boom for tenure change. The next sections repeat the analysis for the downturn/recovery stretching over the six years beginning in 2008. This analysis provides a base for an assessment of the current questions raised by the cumulative impact of housing market outcomes from the last two decades. The final section considers the future prospects for the housing market, and in particular the nature of a policy and supply response.
Looking Back At the Boom
The prolonged rise in house prices over twelve years up to the credit crunch was particularly linked to the easing of mortgage constraints. Mortgages became more flexible and available. Higher loan to value and loan to income ratios, and longer mortgage lengths were seen especially in retrospect by many as the root cause of an overheated housing market. It is also true that the sudden collapse in funding precipitated the end of the boom. However, this is too simplistic an explanation.

The essential facts are that UK house prices began to rise from 1995 but it is not until 1997 that nominal house prices rise above 5% per annum, but then annual house price inflation persists above this level for the next ten years until prices’ peak in the fourth quarter of 2007. This long boom was initially stimulated by a fall in the bank base rates from 1997 onwards, and in particular the fall to 4% in the latter half of 2001 (reduced again to 3.75% in February 2003). Over the same period average earnings rose consistently at well above the rate of inflation except for the period 2002-03 as Figure 1 indicates. The economy experienced 65 quarters, of consistent economic growth, unprecedented in modern times, and unemployment fell to levels not achieved for over a quarter of a century (Jones and Watkins, 2009). From the fourth quarter of 1995 to the fourth quarter of 2007 house prices in the UK rose by 158% in real terms without a quarterly fall. Similar long term house price increase episodes occurred in countries around the globe at the same time, some starting earlier and experiencing larger increases (Jones, 2012a).

An important factor was the relatively low interest rates as noted above from the beginning of the noughties. Mortgage borrowing rates reached a 50 year low in 2003 and although they began to increase again they remained historically low. As interest rates rose from 2003 to 2007 the house price earnings ratio continued to increase, resulting in rising unaffordability (Jones and Watkins, 2009). At the same time almost unnoticed real household income growth began to falter and indirect taxes began to rise. Useful perspective can be gained by looking at the experience of first time purchasers (FTPs). FTPs are more affected by rising house prices than other house buyers because they are generally have less wealth and require a high loan to value mortgage. Traditionally this has meant that during upturns in the housing market FTPs’ share of the market would fall marginally although it would rise in a downturn as housing became more affordable.

Historically FTPs comprise approximately half of all mortgages. Over the course of the boom their UK market share drops by far more than in the past to below 40% for the first time in 2002. It subsequently remains below this mark for the rest of the boom and absolute numbers also followed a downward trend so that FTP purchases in 2007 were two thirds those in 2002,
the peak year for transactions (Table 1). This was a trend broadly consistent across all regions. This fall in the number of FTPs can be directly linked to the rising unaffordability. Bramley et al (2010) estimate falling household formation rates in England through this period. The numbers of young adults living with parents in the UK rises consistently year on year as affordability worsens and totalled 2.66m in 2007 as shown in Figure 2. By the end of 2007 mortgage repayments relative to disposable income for FTPs in the UK housing market are at their most unaffordable since records began, including the peak of the 1980s housing boom (Jones and Watkins, 2009).

An important underlying determinant of these market trends was the unresponsiveness of new supply. As Table 2 shows UK private sector new house completions fell away in the early 1990s in the aftermath of recession but there is only a weak recovery in output as annual house price inflation begins to rise in the late 1990s. Private house building then remains broadly stable and only sees a substantial positive increase in response to the rapid price inflation of 2002-3. At the same time annual output of new housing built by local authorities falls from tens of thousands to hundreds. This collapse in new social housing provision from this source is counterbalanced to a degree by increased building by registered social landlords although not all of this was for rent. Overall total house building is on a plateau for the decade to 2003-4 followed by a modest 10% rise for the last four years of the boom.

Demographic trends are a fundamental influence on housing demand. The number of households has been on a long term upward curve, increasing faster than the population as household size has been falling. The last decade has seen the number of households in the UK rise from 24.5 in 2001 to 26.4m in 2011 (ONS, 2013). The trend is the consequence of the increasing number of single persons living alone derived from the decline of extended family living, divorce, and young single people setting up home earlier (and in-migration).

**Tenure Change in the Boom**

The evident pressures of excess demand creating the conditions for the house boom are not assuaged by an increase in supply. This in turn has consequences for the structure of the housing system. Increasing unaffordability pressures lead to many would be house buyers being priced out of the market and many successful FTPs require financial help from their families. The implications for the housing system as a whole are a shift in tenure patterns for young adults. This is a very different outcome from the previous major housing boom that peaked in 1988/89. In 1988 the percentage of young people aged 25-29 in Britain that are owner occupiers was 64% but by 2004 it has fallen to 50% while the equivalent percentage of private renters has risen from 16% to 31% (Andrew, 2006).
These trends reflect the differences in the state of the PRS twenty years on. In the 1980s the sector was in long term decline partly as a result of its unfavourable tax position and partly because of a range of rent regulation measures that applied until 1989 (Jones, 2007). As a consequence, more often than not, housing in the private rented stock was old and in poor condition. Track forward to the boom of the noughties the PRS sees a major revival as small private investors freed from the regulation of rents and with low security of tenure for tenants take up the opportunities offered by the sustained rise in house prices and accessible finance (Thomas, 2006). Deregulation in 1989 may have been a necessary condition but it is the increased mortgage availability from late 1996 and especially the long price boom that is the key to the investment upsurge. It is also supported by those households rationed out of the owner occupied sector and other households constrained by the paucity of social housing.

The dearth of social housing is the result of a substantial decline in new building throughout the house price boom shown in Table 2 and the cumulative impact of the “right to buy” that from 1980 allowed sitting tenants to buy their home at a discount (Jones and Murie, 2006). Right to buy sales rise substantially as house prices boomed in the early noughties, encouraged by the long term potential capital gains of purchasers. While these sales reduced the social housing stock many of these properties particularly in London and those in less popular areas were ultimately offered as private lets (Jones, 2003).

The house price boom enables the re-establishment of rented accommodation as an investment class after almost a century of decline. Following deregulation in 1989 there were various government initiatives to promote the sector with no long term success. But the anatomy of the noughties boom provides both strong demand, perceived long term capital growth, relatively low interest rates, the opportunity for highly geared and re-leveraged investment, and new supply in the form of small city centre flats that had recently become popular, and encouraged by the planning system.

Table 3 charts the dramatic growth of buy to let in the UK from its origins in the late 1990s. In 1998 there were only 29,000 outstanding mortgages but by 2007 the total had risen to over a million. The numbers are not as great as the FTPs (see Table 1) but the numbers are on a strong upward trend throughout the house price boom and landlords were outbidding home owners. The prolonged length of the boom permitted the rapid growth of small scale landlordism and its social acceptability in a relatively short period (Ball, 2006). The emergence of buy to let landlords resulted in a growth in the PRS of just under 39% in England from the mid-1990s to 2007 (CLG, 2015a).
This expansion challenged what had been seen as the continuing and inevitable rise of owner occupation. The owner occupied sector grew substantially during the last century, particularly in the latter half of it. At the inception of the long house price upturn in the mid 1990s it accounted for 68.5% of all households in England (CLG, 2015a). The increase emanated from rising housing aspirations principally generated by increasing real incomes, and a subsidy/tax system that favoured owner occupation over renting whether it was in the private or public sector. As noted earlier the ‘right to buy’ introduced in 1980 was also a significant catalyst for the growth of home ownership with the gradual privatisation of much of the council housing stock in the UK (Jones and Murie, 2006).

By the end of the boom in 2007 the overall tenure pattern of England is still dominated by the owner occupied sector accounting for 69.6% of the stock. In comparison the PRS and social housing represents 12.7% and 17.7% of households respectively (CLG, 2015a). Social housing constitutes stock owned by local authorities known as council housing and housing associations. Despite the dominance of owner occupation 2006 was a key date because this is the first year the number of households in the sector in England declines, and with social housing not growing this event can be attributed to the rise of the PRS. The proportion of owner occupier households had actually peaked at just under 71% in 2003 (CLG, 2015a).

**The Downturn**

The initial downturn in the housing market that began around the turn of 2008 emphasised the importance of mortgage finance. Effectively the mortgage loan to value lending terms available were suddenly increased, so the minimum required deposits for mortgagors were raised from zero to 25% (Bank of England, 2010). The evaporation of mortgage finance following the financial crisis wrought a severe shock to the housing market. Mortgage lending fell by two thirds over the next fifteen months and transactions more than halved (CML, 2011). House prices fell in nominal terms over five quarters to the first quarter of 2009 by 21% across all regions of the UK.

A subsequent muted and as it turned out short lived market recovery stalled in late 2010, coinciding with falling consumer confidence partly following a change in the government that led to shift from a Keynesian anti-deflationary stimulus to the announcement of a long term programme of fiscal austerity in an emergency Budget. It encompassed tax rises, cuts in different forms of social security payments (including child benefits and tax credits) and redundancies in the public sector. The context was an economy that had nose dived with real GDP falling by 7.2% between quarter one of 2008 and the second quarter of 2009, the
most severe downturn since the 1950s. Real wages also began to fall with the recession as pay failed to keep pace with inflation, a trend that has persisted since 2010 as Figure 1 indicates. This trend has also been linked to greater incidence of casualisation in the labour market through temporary contracts, part-time employment and zero hours contracts that offer no guaranteed work plus low paid self-employment (Hudson, 2014). Furthermore these trends do not account for the cuts to benefits and tax credits and their impact on the incomes of working households. Adams et al (2014) report that real household incomes fell by the order of 6% between 2008-09 and 2011-12.

The housing market has been shielded to some extent from these trends by falling bank base rates which began in December 2007, and fell over eight times in 16 months from 5.75% to 0.5% in March 2009 (Jones, 2012b). Bank base rates have remained at this all time low rate ever since although actual interest rates on mortgages did not fall as much. However, the key influence was access to mortgage finance which had now become highly constrained by the low loan to value rules applied by the banks.

This mortgage finance environment particularly impacted on FTPs and Table 1 shows their numbers fell suddenly by around half from the peak of the boom. This had spillover effects on the rest of the housing market and the number of transactions fell in similar fashion by broadly an equivalent proportion and in 2012 still remained at around half the figure of 2007. With effective demand reduced prices fell away modestly from the end of 2010 through to the third quarter of 2012. There has been some recovery in house prices since that point. It accelerated in 2014 but the UK average price is still over 6% in nominal terms below the peak of the boom after seven years. There is some variation between regions but only Greater London and the South East have experience growth, 10% and 5% respectively. Following the 1980s boom it took almost nine years for prices to recover but a major difference in this downturn is that real earnings are falling rather than rising (see Figure 1). In addition the Nationwide FTP Affordability Measure indicates that mortgage payments relative to take home pay for these buyers are at least 50% above that in the mid-1990s in all regions (Nationwide, 2015). In the circumstances the housing market recovery is arguably remarkable and the UK house price to earnings ratio has also crept up to 5.14 in January 2015.

An underlying factor to these market indicators is a collapse in private house building as set out in Table 2. UK private house completions in 2012-13 are 45% below the equivalent figures in the last year of the boom and a third below the levels built in the early 1990s downturn. There was a small compensating rise in social house building but overall house building is at its lowest ebb since the early 1920s. The government responded initially by the introduction
of the “New Homes Bonus”, whereby it financially rewards a local authority for new houses built. The scheme has had a very limited impact (Lyons, 2014).

**Tenure Change in the Downturn**

Buy to let landlords were a major but highly geared driver of the housing market during the latter stages of the boom with landlords highly motivated by the capital gains on offer. While buy to let too was impacted severely by the credit constraints following the financial crisis the fall in interest rates meant that the downturn represented a soft landing. As Table 3 shows the number of landlord loans in the UK for house purchase falls by half but there is no net disinvestment and by 2011 there are nearly 1.4m loans outstanding.

The downturn has brought greater affordability for would be FTPs: the Nationwide (2015) FTP UK index records their mortgage payments as a percentage of take home pay falling from 52% at the peak to 34% in 2014 (if still historically high). Instead the inaccessibility of mortgage finance becomes the major barrier to home ownership in the first six years from the credit crunch. The raising of the required deposit needed has resulted in many young households continuing to defer buying a home. FTPs are now more often in their thirties rather than previously in their twenties, with an average age of 30 years (Halifax, 2015b).

The absolute numbers of owner occupiers in England continued to consistently fall through the downturn just as in the latter years of the boom, in proportional terms from 70.9% to 65.3%. These figures relate to all owner occupiers including those who own outright and those buying with a mortgage. The latest figures clearly show the long term squeeze of affordability with the number of households buying with a mortgage in England falling since 2003 and now at its lowest level since 1988 (ONS, 2014a). Unlike in the recovery of the early 1990s the improvement in affordability did not generate an increase in mortgagors despite FTPs being exempt from paying stamp duty tax on home transactions valued up to a £250,000 threshold (over the period March 2010 - March 2012). Just 31% of all households in England are now buying their home with a mortgage, a figure not seen since the early 1980s (CLG, 2015b).

In contrast the PRS has continued to grow to 19% of all English households in 2013-14 (CLG, 2015b). From the top of the boom the sector increased its absolute size by 40% in less than five years. With social housing unchanged the expansion of private renting is a net switch from owner occupation. Many people have been rationed out of the market altogether. From 2007 to 2013 there is an increase of 25% in young adults (669,000), aged 20-34 years, living with their parents in the UK as indicated in Figure 2. In total there were 3.3 million of these adults in 2013 (ONS, 2014b).
Cumulative Impacts and Policy Questions

The analysis above suggests that the impact of the credit crunch was not simply a ‘correction’ to a market trend, and seriously questions the often quoted thesis of the price boom as an overheating price bubble. Despite a mortgage famine and falling real household incomes house prices did not collapse and in terms of affordability house prices remain historically high. The fall in FTPS in a downturn is a prima facie argument that structural change is occurring. Would be FTPs have struggled to access the owner occupied sector. The UK government’s latest response has been a “Help to Buy” scheme introduced in 2013 that offers 95% loan to value mortgages to house buyers to support demand.

This initiative was first applied to only new housing but was extended to all housing at the beginning of 2014. In fact it is really two schemes under the same banner. There is an equity loan scheme that is applicable to purchasers of newly built homes. It provides an equity loan worth up to 20% of a house’s value, interest free for 5 years. The scheme applies to all new houses in England up to £600,000 (£400k in Scotland). It is applicable to any type of purchaser. The second scheme relates to all properties, not just new ones, and was introduced in January 2014. It provides a guarantee to mortgage lenders so that a purchaser can buy with only a 5% deposit.

There have been many critics of the schemes that have characterised them as setting off another ‘noughties-like bubble’. The reality of the offering is less dramatic and so far take up of the guarantee schemes has been low, less than 4% of all house purchase loans while the numbers on the equity loan scheme is equivalent to one fifth of new building completions (HM Treasury, 2014; CLG, 2015c). The reasons can be seen in the state of the market. First, as noted above to describe the boom as a bubble is a gross simplification. Second, the guarantee scheme effectively returns FTPs and mortgagors back to where they were in terms of mortgage finance availability prior to the credit crunch. In addition interest rates for mortgages under this scheme are higher than for ‘normal’ mortgage lending. With house prices nationally 6% off their 2007 peak (and real incomes lower) there seems little scope for prices to see a long term surge across the country as FTPS were struggling to enter the market in similar conditions during the boom.

The macroeconomic environment and prospects are also very different now and this is likely to filter through to household expectations about future (‘permanent’) income and hence to house prices. As Figure 1 demonstrates real earnings have been falling for an unprecedented period of time. There are persistent articles in newspapers and reports from think tanks of the ‘cost of living crisis’, the mountain of personal debt, the ‘squeezed middle’
and growing inequality. There is a general insecurity about the future not just among low income households, and Adams et al (2014) are forecasting falling real household incomes for at least two more years. Austerity policies of one form or another are promised for the rest of the decade whatever the political complexion of the government.

Outside the South East of England there is a marked contrast between the conditions that generated the boom, namely continuous economic growth over almost sixteen years, 1991-2007, that brought rising real incomes combined with falling interest rates for most of the period. The UK economy as a whole now faces falling living standards, certainly in the medium term, and little optimism about the future together with the prospect of rising interest rates. Given this scenario it seems unlikely that there will not be a sustained rise in house prices in the near future outside London. Instead the picture could become analogous to the housing market stagnation of Japan’s ‘lost’ two decades from the 1990s (Morizumi and Nao, 2012). There is the possibility of long term market decline with long term falling house prices and low house building because young adults are discouraged from buying by fear of unemployment and job insecurity.

It is probable that accessibility to mortgage finance will improve. Since the global financial crisis the banks have applied a conservative approach to risk assessment. This might be a fundamental regime change but is more likely to be simply part of a credit cycle. In the past mortgage banks have collectively under-priced risks in the upturn of a cycle with very generous credit rationing rules and over-priced it during the downturn, lowering the mortgage terms available. This time the collapse and effective nationalisation of the UK’s largest mortgage banks has meant that their priority has been rebuilding their capital bases and liquidity to be eventually sold off. With these constraints the process of risk assessment adjustment has taken longer than previously but has begun, as demonstrated by the growing availability of higher loan to value mortgages albeit at premium interest rates. However, with the role of mortgage finance arguably acting only a facilitator of demand any easing of constraints are likely to be of limited medium term significance given real income prospects and already high levels of unaffordability.

Since the beginning of 2013 there has been a relative surge in house prices with an average rise of 7.6% in 2013 and 7.8 in 2014 in the UK (in year to end of March 2014), bolstered by 15% increase in London in each of these years. This has been almost certainly been based on pent up demographic demand and limited numbers of properties on the market. It is doubtful that house prices will continue to rise in real terms given underlying market fundamentals in terms of current affordability measures noted above. With a probable weak long term housing price inflation horizon it is very unlikely that the private house building
industry will see a positive step change in its output without major underlying reform to the development process. Even if there is a substantial and prolonged price rise the evidence from the last house price boom suggests that insufficient housing will be built. There is a consensus that the number of houses built for at least two decades has not responded fully to rising household numbers.

The position has been exacerbated by the growth in the UK’s population, a rise by 4.1 million (nearly 7%) to 63.2 million between 2001 and 2011 (ONS, 2012). A discussion paper published by the last government in 2007 at the end of the boom notes that,

“For a generation, the supply of new homes has not kept up with rising demand.” (CLG, 2007).

This imbalance between supply and demand is portrayed by Jones and Watkins (2009) as a long term disequilibrium driven by forces internal to the housing market, with the lack of new supply the result of both the planning system and a cautious house building industry.

The cumulative consequences of these long term trends have primarily been felt by the younger generation of adults (Bramley et al, 2010). Part of the problem is high youth unemployment and the introduction of the repayment of university tuition fees with its associated long term debt repayment. The proportion of young adults aged 20-34 living in the parental home has increased from 21% to 26% in the UK between 1996 and 2013 (ONS, 2014b). The long price upturn followed by the period of, at best, market stagnation have combined to provide a consistent decline in home ownership and a substantial rise in the PRS for the first time in a century. The PRS is now symbolically now larger than social housing. The last decade in particular has been a period of pivotal change.

At the beginning of the boom private tenants represented only 9% of UK households aged 34-45, and even in the younger 25-34 age group they only amounted to 17% (ONS, 1999). Just after the credit crunch these proportions had risen in England to 31% and 15.6% respectively with the younger proportion first. These figures have increased year on year so that in 2012-13 the English Housing Survey records respective figures of 44.6% and 21.4% (CLG, 2015d). The figures do not relate to the same national boundaries (and Scottish figures are lower) none the less there is a strong and definitive trend. Since 2010-11 amongst the 25-34 age group in England there have been more private tenant households than there are households buying with a mortgage.
It is possible to extrapolate these trends and implications, such as Clapham et al (2012) do for young people, but the reality is that the housing system is at a crossroads. There are question marks over the continuation of these trends. A key issue is whether young childless households ‘temporarily’ rationed out of owner occupation in the noughties as they seek to start a family will be able to buy as in previous decades. The PRS still predominantly caters for non-family households but in 2012-13 the English Housing Survey finds that 22% of households in this tenure were couples with dependent children and a further were 12% single parent families (ONS, 2014a). While 71% of couples with children were owner occupiers 17.6% were living in the PRS (CLG, 2015e). It is clear that the traditional tenure roles are already breaking down.

Historically the PRS has been seen as a staging post for young people on their way to their long term goal of owner occupation. It was mainly populated by childless young adults. Pennington et al (2012) finds that there are still strong aspirations to own with 88% of adults in the UK aged 18-30 wishing to own their own home in ten years’ time, but the majority think this goal is unattainable. This may be a sign that ‘low’ income owner occupation aspirations are being reluctantly abandoned or at least stifled and there is the beginning of a new era of long term private tenants.

The issues facing London and the south east are arguably a magnification of those across the UK. London has the highest percentage of the PRS in the UK and a very high proportion of young households. It has benefitted most from the economic upturn but with a rising population demand that continues to outpace supply. Inflating prices boosted by foreign cash buyers has meant that it is the most unaffordable locality for owner occupation (Ball, 2013). At the same time a quarter of households are social tenants and the capital is suffering an acute housing crisis/shortage manifested in terms of rising homelessness (much faster than elsewhere in the UK) many of whom have been squeezed out of the PRS by higher income households (Fitzpatrick et al, 2015).

At this point the housing market is at pivotal point. The system is in the throes of structural change driven partly by macroeconomic circumstances but also by internal housing market dynamics that have created disequilibrium. The current position cannot be the end of the story; it is like a novel where the ending is still to be written. The status quo is unsustainable but there are different conclusions depending on the nature and scale of the policy and supply response. The paper now focuses on supply and reviews these alternatives.

The Supply Equation
Before considering the potential supply responses it is essential to first set out the UK institutional context to the long term weak supply response. The planning system operates ostensibly on a primarily passive basis to control and shape housing development by identifying a rolling forward supply of land to meet demand. In addition since the early 1990s local authorities have used ‘planning agreements’ that oblige private house builders to make social contributions in return for planning permission to develop (CLG, 2006). In the noughties the government focused on expanding the supply of affordable housing by using this mechanism so that planning became central to housing policy.

Planning agreements became the primary mechanism for the delivery of affordable housing. Targets for affordable housing required in each development have varied and have been up to 50% (as in London) but are usually much lower (Greater London Authority, 2008; Burgess et al, 2007). ‘Affordable housing’ refers to both social and ‘intermediate’ housing. The latter encompasses homes sold at a discount to market value, various forms of shared equity, part buy/part rent of which shared ownership is the most well established, and properties let at below market rent to key workers (but above rents of social housing (Monk and Whitehead, 2010). Affordable housing supply is therefore dependent on the volume of private sector houses built. In the housing boom of the noughties the numbers of affordable housing provided in this way increased as land values rose (Crook et al, 2009). However, since the downturn there has been a significant fall in the number of planning permissions with agreements (University of Reading et al, 2014). This has occurred primarily because of problems with the viability of new private housing and reductions in public funding.

Public sector expenditure reductions have led to an invigorated effort to make subsidies go further by reducing state support for new ‘affordable’ housing built by housing associations. In effect this has meant a redefinition of affordable housing since 2011 provided by this sector. The result is that new publicly supported housing in this way needs to charge much higher rents than traditionally for social housing, the order of 80 to 90% of market rents (Gibb, 2012). This approach has been applied across the UK despite the devolvement of housing responsibility to Scotland and London. Whilst ostensibly aimed at ‘areas where there is a demand for affordable housing’ the new schemes need to be in localities where they are viable, and these are not necessarily those that have the greatest need. These new properties also attract professionals currently housed in the mainstream PRS at rents that are equivalent to mortgage repayments. Indeed the advertisements for completed schemes note priority is given to applicants on high incomes that do not require housing benefit, and households do not have to be an existing social tenant or even on the waiting list (Jones, 2013).
The consequence is that the state is supporting housing at rents just below market levels to households who until recently would have bought. The policy language is all about helping households on to the housing ‘ladder’, and is implicitly a trickle down solution to the housing problem. So the new affordable housing for rent at near market rents reduces the pressure on social housing indirectly by building housing for richer households. This filtering ‘solution’ reduces the state’s contribution to the cost of affordable housing units but has failed to generate a significant expansion, so lacks scale and the essential prerequisite for success of a sufficiency of housing supply.

There are also wider planning issues that have influenced housing output that can be summarised under the banner of the promotion of sustainable development. Planning across the UK has emphasised and encouraged high residential densities on brownfield sites within a (socially) mixed use vision of a compact city. The consequence is that flats as a proportion of new house building has risen. In England for example flats rose from a fifth of the total at the beginning of the 1990s to half twenty years later. This increased role for flats went hand in hand with a trend toward smaller units, particularly two bedroom properties (Jones, 2012b). There has been some relaxation of high density guidelines by central government, and while the sustainable development mantra continues in 2010 the planning framework in England was reformed under the title, the “Localism Agenda”. It devolved planning decisions to local authorities away from strategic regional assessments of housing demand. This is generally seen as a NIMBYISM (not in my back yard) charter because local authorities will be reluctant to give planning permission for new housing for fear of upsetting local residents (voters) who frequently object to nearby development. Building is likely to continue to be severely constrained (Jones, 2014).

**Future Supply Policy Options**

Planning policies have primarily focused on the nature of the housing built rather than the quantity. Together, planning agreements and ‘sustainability planning constraints’ exaggerated the housing market boom by slowing/negating the supply response. In the downturn the position has worsened through market conditions. There is a political consensus that the status quo cannot continue but the way forward is subject to policy, financial and market constraints.

To catch up with the suppressed needs created by demographic trends necessitates a step change in the supply of housing. There are also questions about the capacity for growth of the PRS. Market conditions since the millennium have favoured private landlordism but the expansion in new housing in this sector has predominantly been based on an offering of
small flats (plus transfers from other tenures, including former RTB sales). Further expansion is unclear, not least because it will necessitate the sector meeting greater demands from households on low incomes and families with children. Demand from this group has also been promoted by government homelessness prevention strategies across the UK that have sought to divert these households from rehousing by the social sector to the PRS (Pawson et al, 2007). There is a cloud over the attitude of landlords to these people because fiscal austerity policies are targeting social security payments and the reduction of housing benefit (especially to young people). On the other hand the provision of accommodation for families with children implies not only a move into investing in larger units but also a change in the legal tenancy framework. At present the expansion of the sector has been based on short leases that offer a maximum of six months security of tenure. A tenancy on such leases is a condition set by banks for nearly all buy to let mortgages. This flexibility also suits single households but families will be looking for more certainty and security (Scottish Government, 2013).

There are other questions about the further expansion of the PRS. Ball (2012) points to the predominance of small investors around the world and questions the potential of economies scale from management. There are also liquidity constraints linked to the thinness of the investment market. Where there are large investors such as in the USA they tend to invest in large standardised upmarket blocks of flats/apartments (Jones, 2007). Successive governments has been courting investment by financial institutions but despite their apparent growing interest it has yet to substantially materialise, even with subsidies, and in fact over the last ten years they have divested. If there is a way forward it will be in partnership with large housing associations. There is as yet no generic accepted model but it would combine housing associations’ management skills with finance provided by the institutions (Pawson and Milligan, 2013). This would represent a a further blurring of the private and social rented sectors and offer a way forward for expanding the supply of rented family accommodation. However, the sums likely to be generated are likely to be limited relative to the scale of demand (Ball, 2012).

A final alternative is a substantial increase in the houses built for sale to owner occupiers. This has the attraction that there is a continuing strong positive preference and latent demand for home ownership (Pennington et al, 2012). This requires a reversal of current trends. It is a difficult challenge to expand supply during a period of what is at best likely to see a modest growth in real incomes. This seems only likely to be achieved by an increase in the land supply/decrease in land values on an unprecedented scale which implies a reduction in planning constraints and a rethink on planning policies. This is not simply a technical issue but a political economy question that requires the reversal of many fundamental views on where
new development should be located. There are tentative signs of movement in this direction with a reappraisal of the sanctity of green belts. In April 2014 the UK government for example announced a competition for funding for locally led ‘garden cities’, each of around 15,000 houses, but the number supported will be on a limited scale (CLG, 2014).

Conclusions
The rise and fall of the housing market since the mid-1990s has not been a simple adjustment process. The scale of the upturn enabled structural change and the establishment of a substantial PRS. The consequences of the credit crunch have seen a consolidation of the role of this sector as new building fell to a low ebb and financial constraints made owner occupation increasingly inaccessible to young adults. The result is a significant staging point for the housing market as the cumulative impact of insufficient new housing being built over twenty years has created significant housing shortages and unfulfilled aspirations for a generation. Much of the growth of the PRS over the last decade catered for young childless households whose long term goal is owner occupation.

The demand for the PRS can also be traced to long term housing policy in the form of a combination of the RTB and little or no replacement building that has led to a decline in social housing investment. At the same time there has also been inadequate private house building for at least two decades, a function of planning policies and the response of the house building industry. The prospects for the housing market based on current trends in housing supply are bleak but current demand/supply imbalances are unsustainable. The housing market is at a crossroads but the medium and long term solutions are unclear. Policy is ostensibly complicated by regional devolution of powers and the differences between the south east and the rest of the UK, but the reality is that these variations are only questions of degree.

An expansion of social housing supply is one important answer, even if it is only part of the solution. It has a strong case but it is difficult to articulate in a macroeconomic environment dominated by fiscal austerity. The Coalition government saw the PRS as growing to embrace much of the traditional role of social housing but the potential expansion of the PRS has many uncertainties to address. These include the need to rebalance the type of housing away from small units, long term preferences toward owner occupation, lease structures, landlord attitudes toward low income households, the lack of economies of scale and doubts about the attraction of sufficient funding from financial institutions. The (partial) solution with a path of least market resistance in most of the UK is expanding owner occupation despite anticipated weak growth in real earnings, job insecurity and credit
constraints. There are arguably some indications already with the recent growth of FTPs. Such an outcome would to a large extent deny the long term tipping point argument and while the credit crunch would be a short term correction it is not a fundamental event in the resolution to housing market equilibrium.

Any solution requires building more houses through the planning system making more land available and thereby reducing land and housing values. However, while building more houses requires a sea change in planning policy as the Lyons Report (2014) demonstrates its mechanics will require underpinning by a gamut of administrative and financial measures stretching across all layers of government and public agencies. Its implementation is difficult because it faces many political challenges and housing policy choices and the building industry will take time to adjust its operations. The country is belatedly beginning to have a conversation about expanding housing supply but the future balance between social and private new housing is still unresolved. In that sense housing policy is at a tipping point.
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Figure 1  UK Real Wage Growth since 1964: Average Weekly Earnings deflated by the Retail Price Index (% change on the same quarter a year ago)
Source: Taylor et al (2014)

Figure 2 Young adults aged 20-34 living with parents in the UK, 1996-2013
Source: ONS (2014b)
Table 1: Trends in First Time Purchasers within the UK Housing Market

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of FTPS</th>
<th>% of All House Purchase Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>531,800</td>
<td>38</td>
</tr>
<tr>
<td>2003</td>
<td>369,600</td>
<td>30</td>
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<td>2004</td>
<td>358,100</td>
<td>29</td>
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<tr>
<td>2005</td>
<td>363,800</td>
<td>37</td>
</tr>
<tr>
<td>2006</td>
<td>402,800</td>
<td>36</td>
</tr>
<tr>
<td>2007</td>
<td>359,900</td>
<td>36</td>
</tr>
<tr>
<td>2008</td>
<td>192,300</td>
<td>37</td>
</tr>
<tr>
<td>2009</td>
<td>196,600</td>
<td>38</td>
</tr>
<tr>
<td>2010</td>
<td>198,600</td>
<td>37</td>
</tr>
<tr>
<td>2011</td>
<td>193,000</td>
<td>38</td>
</tr>
<tr>
<td>2012</td>
<td>217,900</td>
<td>40</td>
</tr>
<tr>
<td>2013</td>
<td>268,500</td>
<td>44</td>
</tr>
<tr>
<td>2014*</td>
<td>326,500</td>
<td>46</td>
</tr>
</tbody>
</table>

Source: Halifax (2015b) *estimate
Table 2: Housing Completions in UK since 1990

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Private Sector</th>
<th>Registered Social Landlords</th>
<th>Local Authorities</th>
<th>All</th>
</tr>
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<tbody>
<tr>
<td>1990-91</td>
<td>161,630</td>
<td>19,190</td>
<td>16,380</td>
<td>197,210</td>
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<tr>
<td>1991-92</td>
<td>160,250</td>
<td>21,090</td>
<td>9,900</td>
<td>191,250</td>
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<tr>
<td>1992-93</td>
<td>143,980</td>
<td>30,010</td>
<td>4,420</td>
<td>178,420</td>
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<tr>
<td>1993-94</td>
<td>146,750</td>
<td>36,580</td>
<td>3,530</td>
<td>186,850</td>
</tr>
<tr>
<td>1994-95</td>
<td>155,290</td>
<td>37,240</td>
<td>3,060</td>
<td>195,580</td>
</tr>
<tr>
<td>1995-96</td>
<td>156,540</td>
<td>38,170</td>
<td>3,010</td>
<td>197,710</td>
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<td>1996-97</td>
<td>153,450</td>
<td>30,950</td>
<td>1,540</td>
<td>185,940</td>
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<tr>
<td>1997-98</td>
<td>160,680</td>
<td>28,550</td>
<td>1,520</td>
<td>190,800</td>
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<td>1998-99</td>
<td>154,560</td>
<td>22,870</td>
<td>870</td>
<td>178,290</td>
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<td>1999-00</td>
<td>160,520</td>
<td>23,170</td>
<td>320</td>
<td>184,010</td>
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<td>2000-01</td>
<td>152,740</td>
<td>22,250</td>
<td>380</td>
<td>175,370</td>
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<td>2001-02</td>
<td>153,580</td>
<td>20,400</td>
<td>230</td>
<td>174,200</td>
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<td>2002-03</td>
<td>164,300</td>
<td>18,610</td>
<td>300</td>
<td>183,210</td>
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<td>2003-04</td>
<td>172,360</td>
<td>18,020</td>
<td>210</td>
<td>190,590</td>
</tr>
<tr>
<td>2004-05</td>
<td>184,500</td>
<td>21,990</td>
<td>130</td>
<td>206,620</td>
</tr>
<tr>
<td>2005-06</td>
<td>189,700</td>
<td>23,990</td>
<td>320</td>
<td>214,000</td>
</tr>
<tr>
<td>2006-07</td>
<td>192,170</td>
<td>26,650</td>
<td>260</td>
<td>219,070</td>
</tr>
<tr>
<td>2007-08</td>
<td>189,660</td>
<td>28,630</td>
<td>250</td>
<td>218,530</td>
</tr>
<tr>
<td>2008-09</td>
<td>144,920</td>
<td>33,040</td>
<td>830</td>
<td>178,780</td>
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<tr>
<td>2009-10</td>
<td>117,990</td>
<td>34,190</td>
<td>780</td>
<td>152,950</td>
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<tr>
<td>2010-11</td>
<td>104,730</td>
<td>30,920</td>
<td>1,760</td>
<td>137,410</td>
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<tr>
<td>2011-12</td>
<td>108,970</td>
<td>34,190</td>
<td>3,080</td>
<td>146,440</td>
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<tr>
<td>2012-13</td>
<td>105,660</td>
<td>27,160</td>
<td>2,330</td>
<td>135,510</td>
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<tr>
<td>2013-14</td>
<td>111,700</td>
<td>27,120</td>
<td>2,060</td>
<td>140,880</td>
</tr>
</tbody>
</table>

Source: CLG Live Housing Table 209. (accessed February 2015).

* RSL tenure includes social rent, intermediate rent and low-cost home ownership RSL new build dwellings
Table 3 Buy to Let Mortgages in the UK 1998-2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Mortgage Loans Outstanding</th>
<th>Number of Mortgage Loans for Purchase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>28,700</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>73,200</td>
<td>44,400</td>
</tr>
<tr>
<td>2000</td>
<td>120,300</td>
<td>48,400</td>
</tr>
<tr>
<td>2001</td>
<td>185,000</td>
<td>72,200</td>
</tr>
<tr>
<td>2002</td>
<td>275,500</td>
<td>85,030</td>
</tr>
<tr>
<td>2003</td>
<td>417,500</td>
<td>117,120</td>
</tr>
<tr>
<td>2004</td>
<td>576,700</td>
<td>143,870</td>
</tr>
<tr>
<td>2005</td>
<td>699,400</td>
<td>120,460</td>
</tr>
<tr>
<td>2006</td>
<td>835,900</td>
<td>170,830</td>
</tr>
<tr>
<td>2007</td>
<td>1,025,500</td>
<td>183,300</td>
</tr>
<tr>
<td>2008</td>
<td>1,156,200</td>
<td>102,810</td>
</tr>
<tr>
<td>2009</td>
<td>1,234,800</td>
<td>52,740</td>
</tr>
<tr>
<td>2010</td>
<td>1,304,400</td>
<td>53,650</td>
</tr>
<tr>
<td>2011</td>
<td>1,383,900</td>
<td>65,500</td>
</tr>
</tbody>
</table>

Source: Council for Mortgage Lenders

Note: Loans outstanding are those at the end of each period. Lending figures have been grossed to cover all lenders and estimated where actual figures were not provided. Care should be taken with pre-2000 figures. There is a discontinuity from 2005 as a large lender started to submit data for the first time.