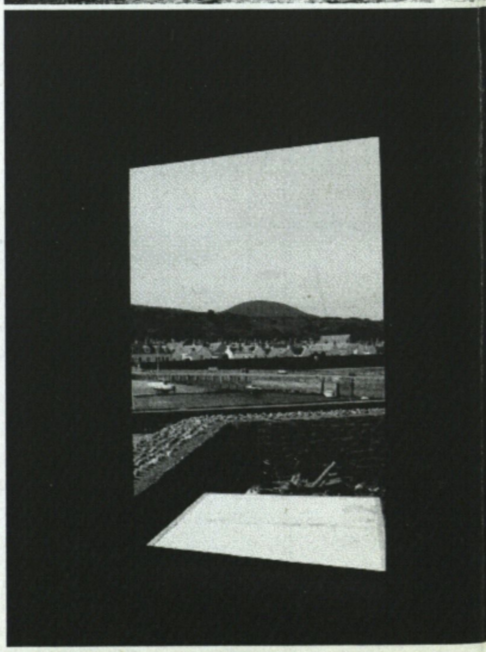
Homes at stake

Susanne Velke considers a Scottish government proposal for making housing more affordable



It is not only with regard to prices that the Scottish property market is different from the English market. It is a characteristic of the Scottish housing stock that it is made up of a higher proportion of flats: in 1990, 40% of all dwellings were flats, compared with 20% in England and 12% in Wales. The Scottish rented sector is characterised by flatted properties. However, the public demand for owner-occupation is high. This is entirely in line with the New Labour programme of presenting home-ownership as an important base for individual and national wealth. Research indicates that most people, and an increasing number, wish to own their own homes.

It is ubiquitously claimed however that there are not enough homes presently available to satisfy demand. The Barker Review identified the problem of the UK housing market as one of *supply*, and advised 'simply' investing in building more houses.

However, in contrast to this, the government's right to buy policies seek instead *simply* to transfer ownership: council houses and other social housing built responding to a need for low cost accommodation, become private assets to satisfy demand for home ownership. The government mixes two different drives - the *need* for accommodation (to combat homelessness or overcrowding), with the *demand* to own a home of your own, close to friends, family and work (fuelling unaffordability). Difficulties and problems occur by not distinguishing between such separate policy aspirations - social need and market demand.

The Scottish Executive has set up a 'low cost homeownership scheme' that is supposed to deliver 5,000 new low-cost homes by 2008. However, the construction of new houses is not necessarily as 'simple' a solution as it seems at first sight. Firstly, it is doubtful whether such new low cost homes are in demand at all - however, it may be that the market is unable to register pressure for the lowest cost homes. But as sales experience by estate agencies shows, unsatisfied demand is mainly in the upper end of the housing market where properties above £750,000 are required. There, supply is short. The middle market, so-called, with properties priced between £150,000 and £750,00 is rather stable. On the whole, houses below £150,000 are actually in excess supply, according to agents Retties - and market stability in this sector is already endangered by uncertainty and falling prices. Consequently, people with lower incomes in this part of the market may be particularly threatened by negative equity in the future.

The problem is not so much that there is insufficient supply of 'lower end homes' – the problem lies in the price of these houses. Those homes that already exist are too expensive, especially in the places in which they are needed. With the average Scottish home now costing over five times the average Scottish wage the existing supply even at the bottom end of the market is priced too high for those who would buy them. Marginally increasing the supply, as the government plans to do, will make no significant difference to the problem of unaffordability (although it may have an impact on homelessness statistics). Homeownership, the government's aspiration for all households, is increasingly beyond the reach of a significant minority which, importantly, is made up of key economic sectors of society.

Secondly, there is a problem of response: higher demand is slow to induce any increase in housing supply, due to the nature of the housing market. There are, furthermore, inherent lags due to the development and construction process. "Strict planning regulations, lack of suitable land, the time it takes to complete and a lack of skilled workers" are reasons mortgage lenders give for the time delay and the falling number of housing completions over the last ten years.

Another attempt by the government to cope with the structural flaws of the market is the already-established shared ownership scheme. The scheme is designed to help young people onto the property ladder, by subsidising the purchase of their first property. If a first-time buyer cannot afford to buy a house outright, then, as a tenant of a registered social landlord, they may be able to buy a 25% to 50% share of a house, and pay a reduced rent on the remaining share. Such schemes are already offered by local housing associations, targeted mainly at people who already possess some capital to make a start and who are keen to fully possess a property.

However, now the Scottish government is developing an alternative scheme. The shared equity programme *Homestake* aims specifically to address scarcity in the housing market, and help first-time buyers on low income. It is planned to build 300 homes in the present year and go on to provide 1,000 homes a year for the next three years, throughout Scotland, by the means of public investment. A registered social landlord (eg. a local housing authority, housing association or housing cooperative) will fund up to 40% (and a minimum of 20%) of the house price. The owner-occupier will contribute the remainder, between 60% to 80% of the 'purchase' price. The latter party will cover all subsequent expenses in maintaining the house; but apart from that has no further costs like rent etc., unlike in the older shared ownership scheme. In order that the social landlords retain some lever of control over the subsequent 'allocation' of 'their' stock, the share in the possession of the owner-occupier should not be increased to 100% - at least not in areas of housing scarcity. At any future point of sale the respective return to the parties will be the selling price that is realised divided according to the relative share at purchase. Any rise or fall in the value of the house will be shared between the 'owner' and the equity holder, in due proportion to their interest. Economic 'rent', capitalised, therefore, could, to some degree, be captured for the public purse.

Houses offered within this scheme receive investment from the Scottish Executive. The housing associations fund the owner-occupiers with the aim of recovering their investment at the point of sale in the future. With the assumption that Scottish house prices will keep rising, this scheme is supposed to be profitable for housing associations and cooperatives.

A similar project called *Homebuy* has already been established in England and Wales. Active in England since 1999, concerns were raised recently about the real profitability of these schemes for housing associations. There were calls for charging a 'rent' on the amount not covered by the owner. The UK government recently floated a revised scheme called *Open Market Homebuy*. This scheme would charge the owner a rent of more than 3%, and additionally leave the opportunity open to buy the home outright.

Subsidising first-time buyers to get them into the housing market might be a transitional measure for the short-term. However, these schemes support an inherently flawed market system. They rely on the presumption of rising markets to lubricate and fund them. They can, therefore, only be provisional solutions - with, in the longer term, only intermittent functionality. *The ongoing affordability of such special tenure homes - like Homestake - is predicated on the increasing unaffordability of the general market.* A housing slump or even crash would cause such schemes problems, to say the least. Such economic events are unavoidable periodic features of the housing market. A downturn in confidence among buyers would precipitate price falls, and many who are asset-rich now would loose substantial asset value, and perhaps even the family's security of their own home.

The self-responsible 'property owning democracy', in which people own their assets outright, and are safeguarded by a financially stable background, seems a positive goal to achieve. This asset-based welfare, however, should not be developed and sustained through subsidies that presume upon the taxpayer, and constitute a burden on the public purse.

To get to the problem of unaffordability at its roots, policy needs to focus on the long term, stabilising the market by using the means which the market can offer. By imposing a periodic public charge on housing's associated asset, ie. the locational value of the site, which at present is capitalised as a substantial part of the house price, the market could be balanced from within. In other words, a charge on the owner for the provision of the surrounding public goods, which create the asset value in the first place, would be a means to avoid further costs for the public purse. Critically, purchase prices would be stabilised within the range of affordability. In contrast to schemes such as *Homestake*, this approach to creating affordability - structurally, not remedially at the margins - would also have positive influences on the efficiency and fairness of raising and re-investing public revenue.

A 'low cost homeownership scheme' such as the Scottish Executive's *Homestake* proposal is not adequate to combat the problem of unaffordability in the long-term. And it will become increasingly inadequate with the turn of each successive housing cycle. Furthermore, it would negatively influence demand in the lower part of the housing market. Public investment may be good for the economy and good for the political image of the government. But a policy to increase housing supply in such a way will not deal with increasingly unaffordable prices in the Scottish housing market. **L&L**

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