UK COLLABORATIVE CENTRE FOR HOUSING EVIDENCE

Visions of Scottish Housing

Briefing

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About the author

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Introduction

It is widely held that the housing system in the UK is broken, but what would a 'fixed' or 'good' housing system look like. One starting point has been offered by the Scottish Government who have identified a number of possible principles as part of the consultation on the Vision for Housing 2021 to 2040 (Scottish Government, 2019). The aim of this paper is to examine this interesting approach by attempting to define the principles identified and to see what their adoption would mean for housing policy in Scotland.

Visions document

The Scottish Government has published a discussion document that focuses on the vision for housing in the country from 2021 to 2040. In that document a number of principles were specified in order to guide discussion on the future. These principles were related to the national performance framework and emerged from workshops led by civil servants, although it is unclear how many workshops took place and who attended. The principles were divided into 4 sections: A well-functioning housing system; high quality sustainable homes; sustainable communities; and homes that meet peoples' needs. Although there are some links between the sections, this paper focuses on the four principles in the first section on a well-functioning housing system, because of their wide-ranging scope.

The approach here is to take each of the four principles put forward in the Scottish Government document and to attempt to define what the principles mean, the factors that drive them and the policy mechanisms that could be used to achieve them in practice.

The four principles are as follows:

- The Housing Market should provide high quality homes for living in, not promote the use of houses as a store of wealth

- Government policy (eg subsidies and taxes) should promote house price stability to help underpin Scotland's standard of living and productivity

- Everybody should be able to save for the future (as well as be secure in their home and make significant changes to it) whether they rent or own

- Housing provision should be informed by whole life economic costs and benefits in the round and help to address inequalities in wealth, health and education

There are clear links between the individual principles, but for the purposes of discussion here, each is considered in turn.

The Housing Market should provide high quality homes for living in, not promote the use of houses as a store of wealth

The question of the quality of homes was dealt with elsewhere in the document, and although very important, is not the focus of the discussion here. Rather, we focus on the key issue of the promotion of houses as a means of living rather than as a store of wealth. This argument has echoes in the longstanding debates about use value versus exchange value of housing and the conflict between housing as a fundamental need and a marketable commodity (see Clapham, 2018) or as a consumption good versus an asset. So the principle seems to imply that houses should be seen as a universal basic need rather than as a marketable commodity that can be used to store wealth. However, this position could be interpreted in many different ways. By its nature as an expensive and durable good that can be exchanged in a market, a house has a market value as well as a use value and a historic cost. The construction of a house involves an investment of labour and resources that is materialised in the property and so a house is necessarily a store of wealth. However, this does not necessarily mean that a house is a means of accumulating or increasing wealth which will be determined by whether and by how much it increases in value. There are three key issues here: does the wealth increase or decrease in value over time? Who benefits from the wealth and any increases? What is the relationship between the market value and the use value?

To take the third of these issues first. It would seem to meet the principle in the document that use value and market value should be as close as possible. In other words, a house should be valued on the basis of its perceived use value to occupiers. However, market factors may result in a divergence of the two. A key factor in this will be the extent to which house prices increase over time, which will be discussed in more detail later. An increase in the price will provide the incentive for individuals and institutions to invest in housing as a way of storing and increasing wealth. If this is the case, then the further question of who benefits from this increase in wealth becomes important. An individual owner-occupier will benefit from any increase, although this may be an illusory gain if the proceeds from the sale of a house need to be reinvested in the same housing market. However, this may still result in an increase in wealth over time that may be freed up through downsizing and used to meet care and health needs in old age, or to subsidise a desired lifestyle in retirement or passed on to children, either as an inheritance or as an earlier payment to enable them to gain access to owner occupation. Governments in many countries have adopted what has been labelled asset-based welfare that is based on the use by owner occupiers of wealth accrued through housing to pay for services in old age. Any changes to the rate of house price increase will change the impact of this mechanism on some households and so need to be associated with changes to service entitlement if they are not to result in problems for some (particularly lower-income) older people.

In rental housing the wealth and any increase in value accrues to the owner which may be an individual or profit or non-profit making organisation. Profit making owners are more likely to treat housing as a way of accumulating wealth. The case of overseas investors buying residential property in world cities such as London or Auckland in search of increases in house prices has been seen to be an example of wealth or profit considerations taking precedence over housing issues, especially where the housing is not occupied and it is possible that well publicised examples such as this may underlie the exposition of the principle. Profit oriented developers of privately owned housing also are likely to benefit from increases in house prices as this enables them reduce uncertainty in the development process and to generate more profit. However, housing developers need to receive a rate of return on their investment as they usually borrow to fund development and price increases over time may help in generating profit. Nevertheless, developers can offset any need for price increases through the price they pay for land and so stable house prices are likely to have an impact on land prices that may harm existing owners of land, but help to achieve affordability objectives. However, any reduction in private investment could result in problems in achieving other elements of the housing vision such as the increased supply of housing. This is an area with contradictions and complex interactions that are not explored in the document.

Non-profit owners such as voluntary organisations or government agencies are more likely to use the accrual of wealth through price increases to re-invest in housing provision. This was the case with British local authorities which were able to finance new house-building at below market prices by borrowing on the increased value of their earlier stock.

So how could the housing market be less orientated towards wealth considerations? There are two key issues here. The first is the control of house price increases that would reduce the returns on wealth invested in housing and we will return to this later. The second is the profit motives of individuals and organisations as owners and developers. It could be argued that operationalisation of the principle would involve an increase in the involvement of non-profit agencies in housing. At the extreme, adoption of the principle could mean the reduction or abolition of owner-occupation as a tenure. Examples of alternative tenure forms include Scandinavian co-operatives that at times have existed without members having access to house price increases Clapham and Kintrea, 1987), although most now do. At the very least, adoption of the principle would involve an increase in the role of public and non-profit agencies in housing as well as restraints on house price growth which we will return to later. But there are also potential problems with private investment in housing and in health and social care provision in old age that need to be considered.

Government policy (eg subsidies and taxes) should promote house price stability to help underpin Scotland's standard of living and productivity

The importance of house price growth in the use of housing as a store of wealth was outlined in the previous section. The discussion here is around the impact that this phenomenon has on the economy. The argument, that has a long pedigree (refs here), is that investment in housing can crowd out other forms of investment such as those in the productive economy that have a bigger impact on employment, productivity and economic growth. Of course investment in new housing has been shown to have positive impacts on employment and general economic activity in the short-term, but investment based on house price growth is part of what has been labelled the 'rentier' economy in which returns are based on capital appreciation rather than on the use of productive assets.

The principle uses the term 'house price stability' and this is subject to a number of interpretations. Does it mean the amelioration or abolition of volatility as shown in the boom and bust cycles that have increasingly featured in housing in the UK since financial deregulation in the 1980s? It is argued that the existence of this cycle reduces new investment in housing and inhibits residential mobility because of the reduction of transactions in a bust phase. Or does it refer to the rate of increase of house prices? What rate would be considered to be stable in this sense. Perhaps the most obvious and most neutral target is for real price stability when adjusted for inflation. This would normalise the profit earned from housing and dissipate any speculate incentive. Because of the housing cycle this would need to be a long term ambition.

A number of policy mechanisms have been discussed as possible ways of restricting house price growth. Some focus on the taxation of capital gains from price rises. Capital gains taxes generally do not apply to people's primary residence but do to second homes or those rented out. But capital gains taxation is only a partial solution and other drivers of house prices may be related to the structures of housing markets and the balance between demand and supply as well as issues affecting land prices.

The principle mentioned above refers to subsidies and taxes. It is clear that any demand-side subsidy to owner-occupation will increase demand and will increase long-run prices, all other things being equal. This has been shown by the UK Homebuy scheme and could be applied to rental benefits also. On the other hand, supply side subsidies will tend to reduce prices. The pros and cons of the two types of subsidy have been long debated in the literature (for a review see Yates, 2012). In recent years in many countries there has been a strong move away from supply-side and towards demand-side subsidies and this may be one factor in increasing house prices.

The importance of the land market to housing is well recognised (see Ryan-Collins et al 2017) and many reform proposals focus on this. The point here is that subsidies and taxes are only one influence on house price increases and other policies may have to be used to achieve the principle highlighted here. Any intervention in this area is challenging because of the general lack of existing policy levers and the lack of knowledge of their impacts both singly and jointly.

Everybody should be able to save for the future (as well as be secure in their home and make significant changes to it) whether they rent or own

The issues of security and control over the property are dealt with in other places in the document and will not be covered here. The focus here is on the issue of saving for owners and renters.

Owners are able to save because their payments usually involve both the ability to use the property as well as building up a store of wealth. This assumes of course that they are not in negative equity with their asset being outweighed by the mortgage debt. The more that house prices increase the more that their savings are worth. Of course if measures are enacted to control house price growth as outlined above, this form of saving would be less worthwhile for owner occupiers and they may need other forms of saving to be available. Renters do not build up savings in the property and pay merely for the use. In stressed housing markets rental payments can be as much or more than mortgage payments on equivalent properties meaning that the saving potential of owners and renters can be very different. Therefore, it is unlikely that a renter would have an income to allow them to save at the same rate as an owner.

The ability of renters to save will depend on them having sufficient income to afford an appropriate standard of living and to invest in other forms of saving and so the affordability of rented housing becomes a key issue for them. There are different ways of assessing affordability, which we do not need to go into here. But policies that reduce the cost of rented housing in either the private or rented sectors will increase the opportunity for renters to save. In the public rented sector this could take the form of subsidised housing below market prices. In the private rented sector it could mean some form of rent control to keep rents at an affordable level.

The other element is the availability of saving vehicles for renters. Apart from general savings opportunities, other options include taking part of the rental payment as an equity stake through a form of shared ownership; establishing a property bond for renters to allow them to benefit from house price increases.

Housing provision should be informed by whole life economic costs and benefits in the round and help to address inequalities in wealth, health and education

The principle here seems to involve two elements. The first is that decisions about housing, particularly around investment, should be made with a long-term perspective (housing is a long-lasting asset). Therefore, investment in housing may have benefits to an individual throughout their life course, but may also benefit other generations as houses are bequeathed, inherited and bought and sold. The principle holds that investment decisions should take into account the full spectrum of costs and benefits to individuals and to the society. For example, good housing may lead to better health and reduce demands on health and social care services and therefore costs to the public purse as well as benefits to the welfare of society as a whole. The principle enables investment in housing to be, at least partially, justified on the basis of savings in other areas and opens up other sources of public and private finance.

The second element is the place of housing in addressing inequalities in wealth, health and education. The importance of housing in wealth inequalities is apparent from its role as a vehicle for wealth creation outlined above. Its role in health and education inequalities is also well documented and the principle argues that it should be a consideration in policy discussions in those areas and that they should be a major concern of housing policy.

What would housing policy look like?

So if these principles are adopted as guides to housing policy, what changes would be made? It has been mentioned in previous sections that the principles are subject to different interpretations and so we have taken one interpretation here. There are four major areas identified above that would undergo substantial change:

- There would be a greater role for the public and non-profit sector in housing provision. This would probably entail a growth in the public rented housing sector as well as the intervention by housing agencies in the development of below market price owner occupied or shared ownership housing. There would be a correspondingly reduced role for private rented housing.

- Government would pursue mechanisms to reduce or prevent house price inflation. These could include capital gains taxes, the abolition of demand side subsidies and the regulation of mortgage lending. Other measures not specifically covered by the principles but may be necessary to achieve the objectives include enabling access to below market price land for developers, as well as other measures to increase the supply of new build housing and to reduce friction in the housing supply chain. The issue of land prices is not covered by the principles but may be crucial to achievement of the objectives.

- Rent regulation would be necessary to reduce rents in the private rental sector to ensure they are affordable and enable renters to be able to save. Appropriate savings vehicles would need to be available to renters. Shared ownership options should be made available to enable renters to gain access to wealth creation.

- Government decision making criteria need to take into consideration the long-term impacts of housing on all aspects of individual's lives and the impact on societal well-being and existing inequalities. The implication of this would probably be an increased level of public investment in housing.

Some comments on the approach

The main aim of this paper has been to assess the implications of adoption of the principles outlined in the Scotttish government discussion paper. But the interesting and innovative approach taken waarants some thoughts on the strengths and weaknesses that are apparent in the approach.

- The derivation of the principles through focus groups accords with ideas of deliberative democracy where citizens discuss issues and attempt to reach consensus, although there are few details of how the process operated in this context and who took part. Moreover, the process may have some drawbacks.
- The principles are rooted in everyday problems that gives them real salience.
- The principles seem to derive from emotionally resonant and well documented problems, rather than from a more rational data driven analysis. This has strengths and weaknesses, but may lead to a misdiagnosis of some problems (such as house price increases).
- The principles are sometimes vague and the above discussion has shown the possibility of numerous interpretations of their precise meaning.
- The principles are sometimes contradictory and the format does not allow for these contradictions to be identified or reconciled.
- Together the principles do not constitute a holistic or comprehensive view of the housing system.

Despite the drawbacks the approach from the Scottish Government is a potentially valuable way of identifying key principles that could underlie a housing system and is an interesting way of stimulating thought and debate.

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