The only response to Britain’s housing crisis on which nearly everyone is agreed, at least in principle, is on the need to increase the supply of homes. On most estimates, we need to build some 250,000–300,000 new homes a year to keep pace with the rising demand for housing units.¹ This would restore home building to its historic levels in the 30 years after World War Two, trebling the rate of new building in recent years. The questions are: what is holding back building now; what kind of homes do we need and where; and who should be building them.

The Government blames the low rate of building on restrictive local planning regulations, the slow ‘build-out’ of sites with planning permission and the lack of competition amongst the major building companies. Its latest White Paper, Fixing our Broken Housing Market,² aims to boost construction through a new £3 bn fund for small building firms, relaxation of local planning regulations, and by putting additional pressure on local authorities and neighbourhoods to draw up ambitious new plans for development. They are relying primarily on incentives to private developers to double their current rate of building. However, private developers are never going to deliver enough new homes at affordable prices. It is in their interest to hoard land, keep supply restricted and prices high. They will certainly not deliver on the Government’s 2015 Manifesto promise—missing in the White Paper—to deliver 225,000 new ‘affordable homes’ in this Parliament.

In recent years the record of governments in delivering homes at affordable prices has been dismal. According to government figures,
only 32,110 ‘affordable homes’ were built in 2015 which was less than in any year since 1991. The White Paper proposals will not change this. In fact the measures proposed are derisory and much weaker even than what we had before. The requirement used to be that new developments had to include at least 20 percent of homes at affordable prices. The White Paper’s provisions for ‘Starter Homes’ now includes just a ‘policy expectation that housing sites deliver a minimum of ten percent affordable housing.’ Unacknowledged in the White Paper is that the Government has recently diluted its definition of ‘affordable.’ This now means at 80 percent of market value. With the average market price for a starter home in the UK now at around £211,000, an ‘affordable’ starter home costs 7.4 times the average earnings of 25–29 year olds, some three times the ratio that applied in the 1970s and 80s.

The only way Britain is going to build enough affordable homes to rent or buy is to increase the supply of social housing through empowering housing associations and local authorities to build more. We know this can be done through a mixture of private development and state-led building initiatives. In the 1960s, between 300,000 and 400,000 new homes were built each year, almost half of these by local councils. It was only after the introduction of Right to Buy policies in the 1980s, and the limits then placed on councils replacing the homes they sold, that councils have built fewer and fewer homes. They are still not allowed to use all the receipts from the high quality homes they are obliged to sell for building new homes, and they are subject to an overall cap on borrowing for home building. It is not therefore surprising that they built only 2080 homes in the 12 months to June 2016.

Yet it is the local authorities which are best placed to build affordable homes where they are needed. They often have better access to land, particularly that held in the public sector, than private developers; they could be given powers of compulsory purchase where developers fail to build on land with planning permission; and they know what local communities need. Furthermore, they have access to cheaper borrowing than private developers and they don’t have to price in the 25 percent profit margins that most large developers expect. They can therefore price homes for rent or sale more reasonably. Some councils, like in Birmingham and Hackney, have already started ambitious new development programmes, often mixing affordable homes to buy and rent on the same sites. More than a third of UK local authorities are now setting up their own
housebuilding companies. They are only being held back by the fixation of governments on market solutions to the housing problem.

A mixed private and public sector response to Britain’s housing crisis is the only one which is going to work. So it is necessary to invest substantial public funds in the process. Governments will have to lift the borrowing caps on local authorities even if this adds to the overall figure for public debt. And they will have to subsidise local authority building programmes if we are to alleviate our chronic housing crisis. To those who say public funding of house building on this scale is not affordable, there is a simple answer. It is a much better use of tax payers’ money than the current alternative. This involves public spending of over £27 billion per annum on housing benefits to help low-income tenants pay their rents—money which often ends up in the pockets of private landlords, many of whom provide a very poor service.

**Capital Gains Tax on Sales of First Homes**

However, increasing the supply of homes will never in itself solve the problems in housing. Too many of the new homes will start—or end up—commanding high prices in the private sector, and too many of them will be bought by buy-to-let landlords and foreign investors rather than would-be home owners. We already have more rooms per person than ever, a surplus of homes to households, and an estimated 600,000 homes left vacant across the country. The problem is that too many of our homes are in the wrong places, at the wrong prices, and they are being bought by the wrong people. Reducing the current gross inequities, generational and otherwise, in home ownership and housing tenures generally requires a more radical approach which reduces incentives for speculation in property and restores the notion that homes exist to meet people’s rights for safe and secure places to live. This means going back to basic economic incentives.

House prices have risen so high in many areas of England mainly because property is seen as an exceptionally lucrative investment. This is not a natural characteristic of housing—bricks and mortar don’t have any magic property for yielding profit—and in many countries property is not regarded as a particularly good investment. That it has become so in Britain is largely because governments over many decades have systematically favoured property ownership, either because they wished to promote the benefits of a ‘property-owning democracy’ or, less admirably,
because they just wished to keep the majoritarian property-owning electorate onside. The most flagrant case of this has been the tax privileges conferred on home owners and landlords. Historically these privileges included tax deductible mortgage interest for ordinary home owners. Until very recently, they still included special tax privileges for landlords who could set their mortgage interest, plus maintenance and insurance costs, against rental profits for tax purposes.

However, much the most egregious example of tax privilege for property ownership has been the exemption of so called ‘first homes’ from the capital gains taxes which are paid on profits from the sale of most other assets worth more than £6000. If you invest in paintings or jewelry or other valuable assets you have to pay tax on the profit you make when you sell them. But not in the case of ‘first homes’. In the days when most home-buyers were seeking, first and foremost, a place to live for their family, and when house values were not rising so fast, CTG exemption may have made some sense. However, few would claim today that asset maximisation was absent from their considerations when buying a house. Making a good investment is at the heart of people’s decisions to buy homes to live in. It has to be—it is the biggest investment most people ever make. For small-time buy-to-let landlords it is the key to their exceptional profits, and they too benefit from CGT exemptions through the simple trick of re-designating supplementary homes as first homes prior to sale.

Tax exemption on capital gains from housing transactions is both socially and fiscally indefensible. It is socially indefensible because it represents the state providing economic favours to one section of the community (older home owners) at the expense of another (younger would-be home buyers). The latter, as a result of the tax incentives for property investment, have to pay higher prices to older vendors. It is fiscally indefensible because it skews investment too much into one unproductive and already bloated sector, and away from other sectors which are more productive, like manufacturing. Rather few people invest in shares in public companies—despite all the hype about the share-owning society—but half the population invests most of their money in property.

No-one any longer seriously tries to defend tax privileges for property on the grounds of principles, either social or economic. The argument about home-owner democracy looks increasingly feeble when the phenomenon is literally disappearing before our eyes. The claim that state support for property ownership is necessary because it boosts the
financial sectors on which national economic growth depends is dubious at best, the more so now since it was housing finance which detonated the global financial crash in 2007/2008. Indeed the only remaining justification you hear for tax privileges for property ownership are ones of political expediency and misplaced short-term economic pragmatism. Governments will not consider reforming fiscal policy on property because they think it will be unpopular with older home-owners. They fear any interventions which bring down property prices will tank the economy. Both arguments are short-term in the extreme.

Soaring property prices and associated levels of mortgage debt have already crashed the economy once and will no doubt do so again if things are left to go on as they are. Raising any taxes is certainly unpopular and introducing a new tax (CTG on first homes) would initially be unpopular with a lot of people, it is true. But with the ever rising public debt some increases in taxation are now seen are as inevitable by many economists. The question will be which kinds of tax increases will be most efficient economically and will best meet the social objectives to which people most aspire. With increasing concerns about intergenerational inequity and about the adverse social consequences of rising inequalities in incomes and wealth, it is not impossible to conceive of winning electoral majorities in favour of raising revenues through higher taxation of property assets in exchange for smaller increases in income or other taxes. It should at least be debated.

Collecting taxes on property is relatively straightforward. Immobile physical assets are harder to conceal than less visible financial assets and other more mobile physical assets and their taxation is harder to avoid. Imposing CGT on sales of all homes would also raise considerable revenue. During the seven years preceding the financial crisis in 2008 some 15 million home-owners, who were owner-occupiers throughout the decade, saw the value of their collective housing assets grow by about £1.5 trillion. Netting out for inflation and home improvements, you can estimate real private asset gains of over one trillion pounds. Roughly one million private residential homes were sold each year in the period after 2010. If capital gains tax had been applied over the following five years at 30 percent on annual sales of, say, three million homes owned since the year 2000, with an average net profit of £100,000 and upwards, it would have raised over £90 billion pounds. Tax on the sale of another two million homes, owned over a shorter duration and only netting an average of, say, £50,000 profit, would have been a further £30 billion.
Around £24 billion would have been raised for the Exchequer each year. This is close to what the Government currently spends on secondary education.

Introducing CGT on all property sales, if managed properly, would bring down house prices permanently and this would be a good thing, not just for would-be buyers, but ultimately for everybody, since a more stable housing market would also mean a more stable economy generally. Home owners of long standing who sold their homes would indeed have to pay back in tax some of the windfall paper profits they had made from rising house prices. Forfeited profits would be less for those who had not owned their current properties for so long and for future generations of owners who would see less profit anyway. Most home owners have less to lose from falling house prices than they often imagine. If they sell and re-purchase, they will be selling at lower prices but also buying more cheaply. If they stay put, their housing assets may have declined on paper, but so long as they can pay the mortgage they still have a roof over their heads—in a property they have chosen to buy.

Hardest hit would be those who had purchased more recently and faced going into negative equity during their current tenure. They should be protected through tax subsidies and through regulation which prevents lenders from re-possessing homes, particularly of people still able to pay the mortgage. Where mortgage payments become a problem lenders should be required to re-schedule debts by extending repayment periods, as is the normal practice in France and other continental European countries. This might be hard to impose now, since people mortgage at such high multiples of earnings, unlike in a country like France where the affordability limit is normally repayments at 30 percent of taxed income. But with lower prices mortgagees would less leveraged, and lenders might be more flexible about extending terms. Perhaps the main negative effect on home owners would be in the loss of collateral for further borrowing. But private debt is already at unsustainably high levels in the UK—higher than in almost any other OECD country—and more private borrowing for consumption should not be encouraged.

The principles behind capital gains tax on private property are fair and transparent and the effects would be economically and socially beneficial over the longer term. It is true that advocates of higher property taxation tend to favour alternative schemes, but these are either more complex or likely to be less efficacious. Labour and Liberal Democrat proposals
at the 2010 election for a ‘mansion tax’ on properties worth more than two million pounds were little more than political posturing. It would have raised relatively little revenue and by carefully calibrating the threshold so that only the wealthy would be hit only avoided the key issue. To stop the continuing escalation of house prices and reduce generational inequalities we need to lessen the incentives for property speculation not only amongst the very rich but also amongst those in the middle who have also received substantial unearned gains through rising house prices.

Land-value taxes are also more favoured by many of the more perceptive commentators on the housing market and they do have some advantages. You are not taxing people on the value they add to their homes by investing in home improvement but only on the unearned value accruing through rises in the value of land (although you can achieve the same through CGT by allowing offsets on taxable profits for home improvements). Furthermore, the tax is imposed on land which is left unused while prices rise, and so discourages speculation based on rising land value. But these taxes would be complex to administer—requiring constant re-evaluations of the value of all properties in land, net of the value of the buildings. And they fail to address the main fiscal inequity in exempting one class of assets from taxation on profits on sale. One potential problem with CGT on all private property sales—the danger that it would cause a deficit of properties for sale as older people withdrew from the market to avoid the taxes—would be avoided by imposing a land-value tax rather than CGT. On the other hand, the danger of a market contraction in house sales following the introduction of CGT could be diminished in another way. We could simply reform the Council Tax so that people in higher value properties paid a higher price for keeping them.

**Reforming Council Tax**

The Council Tax in England is currently a mess. It is a tax imposed on individuals (with certain groups exempted) but it is both a personal and a property tax, where, in the latter case, the amount paid is calculated according the notional value of the property in which they live. Properties are divided into eight bands with progressively higher rates, with the top band charged at three times the bottom band. The trouble is that the rateable values date from 1992, since no government has followed through on the many promises made to update these values in
England (although they have been in Wales and Scotland). The result is that differential charges between the band rates bear no relation to the actual differentials in the values of people’s homes today.

The bottom band ‘A’ is for properties valued in 1992 at up to £40,000 and the top ‘H’ band is for properties valued at £320,000 or more. In 1992 someone in an average A band property worth, say, £20,000, was paying one third of the rate of someone in a band H property which might have been worth £400,000. Their rates were set at a third of the charge for homes in band ‘H’, even though their properties might have been worth one twentieth of the value of the band H property. Since 1992 house prices have risen by around four times, and by more at the top end. So the top band would now include properties worth £7 million, while the average value of band A properties might be something in the region of £70,000. The value of the expensive property would be 100 times the value of the less expensive property, but the tax rate would still be only three times more. So the Council Tax is highly regressive and fails to tax the very wealthy at anything like an equitable rate for the value of their property. Research from the Joseph Rowntree Foundation from 2006 estimated what each household income quintile was paying on Council Tax as a proportion of its income. It found that households in the bottom quintile were paying on average 4.9 percent while those in the top quintile were paying only 1.7 percent.7

Clearly the bands need to be revised and many are campaigning for this but successive governments have been reluctant to act, presumably fearing a backlash from those in valuable properties who would be paying more. This should not be allowed to deter a reform which benefits the majority. The simple answer would be to add some new bands to the scale, to reflect the fact that there are now many more very expensive houses, and to revalue properties according to current prices. The Centre for Economic and Business Research recommends adding three new bands to create a new revalued A to K scale. Band A would be for homes now worth under £85,000 and band K for home worth more than £4 million. Their proposal would raise the ratio of top band to bottom band charges from the current 3:1 to 4.5:1. Band K property owners would see their council taxes rise to around £4493, some £1500 more than they currently pay.

This is a modest proposal which would raise an additional revenue of around £4.7 billion, considerably more than the mansion tax proposal would have raised. A more equitable solution, which would come closer
to taxing property wealth on a proportionate and therefore more pro-
gressive basis, would need to increase the ratio substantially more than
this. According to the Joseph Rowntree Foundation research reported
earlier, the ratio of charges between the old bands should have been
closer to ten to one to be proportionate to the average incomes of peo-
ple living in properties in each band. With more bands the ratio would
need to be higher.

A reformed Council Tax system would have a number of clear ben-
efits. Taxation in Britain is highly centralised with only some five percent
of total tax being raised locally.8 This addition to local taxation would
help cash-starved local councils to continue to deliver essential services
and fits well with the current Government’s ‘localism’ agenda. The tax is
easy to collect—with an estimated 97 percent collection rate in 2014—
and, once the revaluation process was completed, would incur no extra
charges to administer, until the next re-evaluation at least. Assuming that
councils levied the tax on occupied and un-occupied property alike, as
they should, it would provide a stronger dis-incentive to property devel-
opers leaving their properties empty since they would be paying higher
charges for the privilege. It would also act to counter any tendency to
hoard properties that might arise from the wider imposition of capital
gains tax. There are currently around 2.9 million homes occupied by the
over 65s, with more than two extra bedrooms, and the Government is
encouraging them to downsize to free up more family homes.9 An extra
tax on the profits from selling their homes would work against this. But
having to pay substantially higher council taxes might encourage them to
do so anyway, especially if stamp duty for the elderly buyer were scrapped
as well. And the main benefit of course would be that the tax would be
much more equitable than it is at present.

Some object that raising top end Council Tax will unfairly penalise
cash-poor older people who have seen the value of their properties rise
through no fault of the own. But the objection is misplaced. According
to the Joseph Rowntree Foundation the number of low income pension-
ers living in properties in the F to H bands is very small—only about
100,000 in 2005.10 Many of these will have substantial care bills and
will no doubt need to down-size their properties in any case to pay for
their care in the new asset-based welfare system which is emerging in this
country. Younger people, on the other hand, would benefit greatly from
the downward pressure such reforms would exercise on house prices.
Measures like these to reduce property prices could be a risky business and would need to be managed carefully. A fall in borrowing and consumption among home-owners would be likely to follow an announcement of any such changes to property taxation. In the longer term, this would be balanced by increasing spending from the younger generations who currently have little to left spend after paying high rents and mortgages. However, there might be a bumpy ride for the economy and the changes would no doubt have to be implemented gradually. However, the long-term benefits would be considerable. Reducing house prices and investment in property would help to ‘re-balance’ the economy and would certainly create more economic stability. It would also create a more equal society with smaller gaps in wealth and incomes. But most important, it would help to reduce intergenerational inequality. There is probably no more effective single way for achieving this than reducing house prices.

Re-regulating the Rental Sector

At the same time, Britain needs to address the very real problems in the private rental sector. It is currently amongst the most de-regulated in Europe and, in today’s normally boosterish housing market, this means rents are very high and quality and security often low. Many countries regulate rents to avoid exploitation of tenants. Even New York maintains rent control. Britain abolished its rent controls in the 1980s and has seen rents rise astronomically since the 1990s in areas where house prices are high. Any notion that greater competition in a less regulated rental market would keep prices lower has proven groundless.

De-regulation has also meant less security for tenants who under current tenancy law can be asked to leave by landlords at short notice (three months) and with no reason given. The average tenancy is now less than two years and many complain of being forced to leave as landlords continually hike the rents to levels they can’t afford. Estate agents often connive in the process, encouraging landlords to raise prices annually, and to evict tenants who can’t pay. In some cities they now demand fees for showing properties for rent and even require nine months advance payment of rents to tenants considered risky. Landlords, egged on by agents, frequently try to increase their profits at the end of tenancies by demanding large damage deductions from returnable deposits, even where such
‘damage’ is no more than normal ‘wear and tear.’ Fortunately, where tenants can afford the time to lodge appeals, tribunals often tend to find the landlord demands excessive. We are now treated to obnoxious Radio four advertisements from landlord insurers promising landlords to make any problems with pesky tenants ‘go away.’ The chosen advertising medium says a lot about the demographics of landlords. Nothing better captures the shamelessly exploitative culture that has grown up around private renting in our times.

With the proportion of people in private rental tenures increasing so rapidly, and with abuses on the rise, this situation has to change. It is time for a new housing act that properly regulates the rental market, and ensures that private renters get a better deal. Rent controls need to be reintroduced, at least in the larger cities, where rents are so high, so that the concept of ‘fair rents’ can begin to be restored. To give legitimate tenants greater security, legal notice periods should be revised so that landlords are obliged to give nine months notice to end a tenancy where no breach of tenancy agreements has occurred. New longer-term tenancy contracts should also be available with landlords obliged to grant these to established tenants with good records who wish to re-contract for longer periods. Where landlords seek to give notice to such tenants who may wish to apply for longer term tenancies, tenants should have the right to appeal, with landlords obliged to give just reasons as to why they should not extend contracts for tenants in compliance with their tenancy agreements.

Tenants with young children at local schools, for instance, who are paying their rents on time, and observing their tenancy agreements, should not have to leave at short notice simply because their landlord wants the house back for a relative or thinks it might be a good time to sell or to move back in to avoid paying CGT on a future sale. The concept of greater need should apply and local rent tribunals should be established to adjudicate it.

Landlords should be licensed, as are most other professionals providing essential services, and their properties should be subject to regular inspection, by bodies certified to do this. Newham Council has been successfully implementing such a scheme, bearing down on landlords who are letting illegally. It is only Government obstruction which is stopping this scheme being adopted by other councils. The law needs to uphold tenant’s rights just as assiduously as it currently protects landlord’s rights. Landlords must understand that they have responsibilities just as
tenants do. Currently the balance between the two is seriously out of kil-
ter. It needs to be restored by legislation.

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