

Economics of the United Kingdom housing market inquiry

November 2015

How to solve the housing crisis for the UK as a whole

Abstract

Rarely has a select committee been given such an important task. The future importance for creating a successful housing and rental sector market is fundamental to the well-being of the UK. The committee is urged to consider the ideas put forward with an open mind. The proposed plans are simple, yet tackle all the fundamental issues of the housing and rental markets. They do so in a modern way, utilising the ability of the internet to efficiently bring together the disparate stakeholders within the funding, planning, building and rental provision. If these plans were to be enacted they would help stabilise the whole economy from swings within house pricing and help stabilise and indeed improve long-term guaranteed income on savings especially for people of pensionable age. They would create a much fairer provision for the rental sector and a vehicle for the transition of house ownership from the older to the younger generation.

The plans put forward will be seen by many to cut through swathes of existing commercial interests. The main protagonists will be the banks. The committee is urged to look beyond these interests and take an enlightened stance to improve the long-term stability and well-being of the UK. Apart from the banks there are few losers in the proposed processes. There are many winners, no less our young people, who shall benefit directly and who shall gain an enabling vision for their future in Britain.

Summary for the Committee

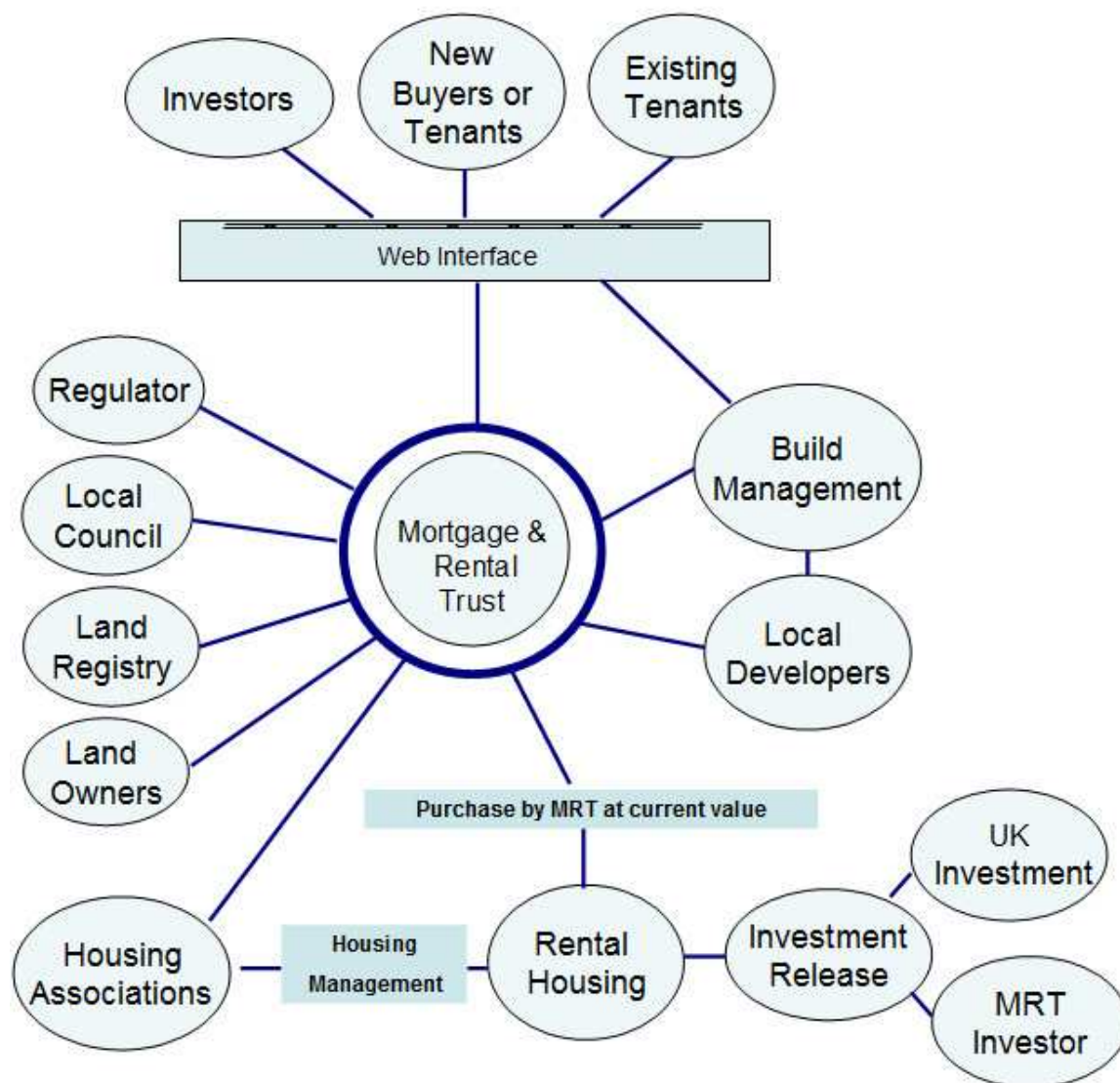
A summary of the solution is set out below. More discussion follows in the appendix.

The Solution – UK wide Mortgage & Rental Trusts

New legislation is proposed that will create UK wide 'Mortgage & Rental Trusts'. These Trusts should be mandated to create an equitable saving and loans system to enable new home building and to control the rental sector. The trusts should have local (internet based) branches and provide a central UK hub to enable best practice and financial stability. The Trusts must be financially secure with cover for savers up to a sensible level that enables the Trusts to attract investors.

This legislation must include provision to ensure all the stakeholders involved within the building process work together. This will enable cost efficient local house building for local people. The internet shall enable local Trusts to provide land at fixed prices, planning permission and building control. Modern automated processes will allow seamless interaction for prospective house buyers from the point of finding land (or existing properties) through mortgage provision, planning, land registry, building to final completion.

The rental sector must have new legislative framework and controls that enable the Mortgage & Rental Trusts to buy back rental accommodation and provide stability and fairness within the rental sector as a whole. This shall include the sale of rental accommodation to local people who wish to purchase or part purchase their rented homes and control rents based on fair valuations.



Appendix

The Current Problems

The main underlying issues of the housing and rental market may be considered as follows:-

- Uncontrolled house price inflation, fuelled by the lack of new properties to match increasing demand.
- Poor provision of potential housing land
- No integration of planning bodies, landowners, mortgage providers, building companies and the public.
- Poor provision of affordable mortgages for especially young people and first time buyers.
- Little long-term protection for mortgagees against rate hikes.
- Investment within the rental sector fuels the inflation of house prices, while removing this investment from more useful investment within the UK.
- A two tier housing market; where mainly the older generation holds property as their main residence and also rental property as an investment strategy; and the younger generation who are disenfranchised from ownership while paying increasing rents for no additional value.

- Potential destabilisation of the whole UK economy as the housing sector impacts as an inflationary (or recessionary) lever. Potential future housing price bubble if the housing supply continues well below demand.

What are we trying to achieve?

Stand back and consider the way we should all like the economy and housing sector to work. We would like to see people (and companies) invest their available money and resources in ways that create a better long-term future for Britain. This means investment in sectors and infrastructure that enables Britain to be more efficient in future years. This future efficiency is derived from several main sources. The service industries and manufacturing sectors are important here. But also important is modern infrastructure and also homes in the right places that enable people to live and work more efficiently.

To have many people investing in existing properties as a key part of their long-term investment income does not enable any potential for improving Britain's efficiency. This money simply follows the housing supply issues but does nothing to improve the supply side. This money would be better spent invested in areas that improve Britain's future efficiency.

Lack of supply is already creating a housing bubble in areas such as London, forcing working people to move out, increasing their journey time and thus reducing their work efficiency. This increase in travel costs are also a drain on the economy. There is likely to be a direct relationship between journey time and overall efficiency for Britain's economy.

Families need local resources to enable them to nurture and educate their children. While these processes unfold slowly, and while their effects not immediately apparent, they have a major impact on the future efficiency of Britain. Poorer educated and less accomplished children are likely to need greater welfare and health resources and provide less work efficiency in the years to come. Family homes in the right places with good access to such resources are vital for Britain's future.

Without re-structuring the housing and rental sector, Britain is likely to endure increasing house prices (above inflation), and continue to fail to provide enough additional homes to meet demand. This will lead to the attendant disadvantages reducing Britain's economic efficiency for the foreseeable future.

We can therefore see that the housing and rental issues are fundamental to the success of Britain and re-structuring is not just an option but essential.

A plan to solve the fundamental issues

The proposed ideas outline an integrated plan that re-structures the housing and rental markets tackling the fundamental issues discussed. The plan utilises modern integrated processes and the ability of the Internet to bring together the many stakeholders within the mortgage, house building, local planning agencies, landowners and investors within the rental sector.

This plan requires parliament to provide a new legal framework for;

House Building and Mortgage Provision:-

- Provision and creation of a new type of lending (and saving) organisation that is owned by a trust (Mortgage & Rental Trust), backed by centrally funded insurance provision, creating stable UK wide mortgage provision.

- Provision for a mandatory Internet based process that enables the public to interact with all the stakeholders involved in funding and building a new home.
- Provision of new mortgage lending that provides long-term loans on fixed rates, backed by local investors who are in turn ensured a long-term investment rate.
- Creation of a new partnership between local landowners, planning authorities and the public with the aim of creating new house building.
- Provision should be made for the mandatory pricing of land for building from local landowners (whom wish to sell) to allow smaller building organisations to build new homes. Provisioning for plot pricing and guaranteed planning permission for permitted buildings
- Similarly, provision should be made to mandate local councils to provide brown field sites for listing and pricing as small plots for enable new house building by individuals or small building organisations.
- Provision for a mandatory link between the sale of rented accommodation and the creation of new builds, either directly by the Trust, or by a new purchaser.
- Provision for the trust to own housing stock with a view to both renting and in turn selling on the properties.

Rental Sector Provision:-

- Creation of a mandatory fair 'buy back' provision via the new type of lending organisation for local rented accommodation.
- Creation of a fair rental sector through the regulation of all (privately owned or commercially owned), rental properties via the newly created Trusts UK wide.
- Freeing up of investment moneys for re-investment within the UK economy from private investors whom hold rental investments by providing fair value and guaranteed income for properties taken into the 'buy back' scheme.
- Mandatory provision for enabling fair value purchase of all properties taken into the 'buy back' scheme, by the current tenant(s). Such a 'buy back' scheme shall ensure that the previous owners are offered an equivalent re-investment rate to their potential rental income, (if they wish to invest their sale proceeds).
- Provision should be made for tax exemption on the sale proceeds for the mandatory 'buy back' of rental homes.
- Mandatory provision for part ownership of properties, where the tenant/purchaser is enabled to purchase the property over a longer period without the need to overstretch their financial resources.

Additional Provisions:

- Provision for an improved process for dealing with mortgages in arrears or in default. Such provision shall include the move to a rental agreement for the property or part ownership for an extended period, thus negating the need to sell the property at a low market rate leaving the owners with excessive debt.
- Provision for a simple, open, effective Internet based process for finding a new property, achieving mortgage funding, building a new property (with the help of a local building company).

- Similarly, for the rental sector the provision for finding and agreeing short or long-term rental accommodation.
- Current legislation controlling the housing trust sector shall need to be changed with a view of enabling the Housing & Rental Trusts to work alongside or subsume these organisations.
- The legality of part ownership (shared ownership) requires amending to ensure the property rights of the part owners.

The Outcomes

This extensive re-structuring provides a long-term solution to the core issues:

- House prices will stabilise due to increasing the housing pool by enabling new homes to be built by local people.
- House prices will stabilise due to the mortgage market being based on longer-term lending that is backed by local investors.
- House prices will stabilise due to reducing investment in the rental sector and ensuring that rental rates are affordable and in line with 'fair' property prices.
- People will be able to find financially affordable and secure mortgages for both the building of new homes and for the local housing stock.
- People within rental accommodation shall be able to purchase their current residences, either outright or in part, creating a virtuous cycle of home purchase and new building
- Rental accommodation shall be regulated through these new Trusts to ensure fair rents and fair rental practices UK wide. This will improve the ability for people and families to relocate enhancing economic opportunity across the UK.
- Investors will be able to gain long-term fixed interest income. This will help pensioners and people who presently own second homes within the rental sector.
- Such investment strategies will enable additional money to be drawn into the Trusts and provide for new home building.
- The local nature of these Trusts along with the seamless integration of all aspects of the building process shall enable local, smaller, building companies to enter the building market and be assured of long-term stability.
- The 'buy back' scheme enables people to own their homes and this, in future, especially at pensionable age, reduces their reliance on the state for the cost of accommodation.
- In the longer-term, this strategy will dissipate the increasing divergence within the housing market between younger and older generations. This is achieved by enabling a sensible flow of investment from the older generation to housing ownership for the younger people. The Trusts are central to this process.

This is a personal vision from a UK individual who has no political or commercial allegiance. November 2015

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