

Housing, Communities and Local Government Committee

Oral evidence: Affordability of home ownership, HC 1208

Tuesday 28 October 2025

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Members present: Florence Eshalomi (Chair); Chris Curtis; Andrew Lewin; Sarah Smith.

Questions 1 to 37

Witnesses

I: Vicky Spratt, Housing and Society Correspondent, *The i Paper*; Dr Peter Levell, Deputy Research Director, Institute for Fiscal Studies; Sophie Hale, Principal Economist, Resolution Foundation; Professor Stanimira Milcheva, Professor of Real Estate Finance, University College London.

Examination of witnesses

Witnesses: Vicky Spratt, Dr Peter Levell, Sophie Hale and Professor Stanimira Milcheva.

Chair: Good morning, everyone. Welcome to the Housing, Communities and Local Government Select Committee. I am Florence Eshalomi, the Chair of the Select Committee. Can I ask colleagues to introduce themselves, please?

Chris Curtis: I am Chris Curtis. I am the MP for Milton Keynes North.

Andrew Lewin: Good morning. I am Andrew Lewin, the MP for Welwyn Hatfield.

Sarah Smith: Good morning. I am Sarah Smith. I am the Member of Parliament for Hyndburn.

Q1 **Chair:** We have some other Members joining us. Some are running late. Can I ask our guests to introduce themselves, please?



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Vicky Spratt: Hi. I am Vicky Spratt, the housing and society correspondent at *The i Paper*. I am also the author of a book called *Tenants*, which looked at the housing crisis across the country over a seven-year period.

Sophie Hale: I am Sophie Hale. I am a principal economist at the Resolution Foundation. I work on intergenerational issues, focusing on housing in that way, but we do a lot of work on housing and looking at it more generally as well.

Professor Milcheva: Hi. I am Stanimira Milcheva. I am professor in real estate finance at University College London.

Dr Levell: I am Peter Levell. I am a deputy research director at the Institute for Fiscal Studies.

Q2 **Chair:** Thank you very much for coming along. This is our first evidence session in our inquiry into the affordability of home ownership, which is a big issue for so many people right across the country. We know that rates of home ownership across the country have been declining, particularly among young adults. I think about many constituents in all our respective constituencies emailing in terms of saving to get on to the housing ladder.

The UK also has the lowest rates of home ownership in comparison to other countries. In 2024, the figures stated that 16 million people in the UK own their homes, which is lower than most of our European counterparts.

Coming on to home ownership and the impact, I wanted to come to you first, Vicky. We know that most people want to own their homes. It is an aspiration for many people, but not everyone who wants to can. What effect does this have on people who cannot get a home?

Vicky Spratt: It has a huge impact on everything from your general wellbeing and mental health to what your life looks like. I have seen this with families in the private rented sector. It is obviously great news about the Renters' Rights Act, but up until very recently they have been suffering rent rises, evictions and lots of instability for children. I interviewed a family who had had to move five times in as many years with young kids. When you are trying to keep them near their school or childcare, that is an absolute nightmare.

On top of that, you are paying rent, which we know is very expensive. It is often 40% to 50% of a person's take-home pay, so it is very difficult to save for a deposit. That causes a lot of anguish. I recently interviewed a couple who were living apart because it was easier. One of them had moved back in with their parents. It was just easier. They were still together.

For people who own, something I am seeing and hearing more and more is that they have bought a starter flat—I actually spoke to somebody



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yesterday who is in this situation—so a one-bed flat, maybe with shared ownership or Help to Buy when it existed. They have met someone, had a kid and cannot afford a two or three-bed. The person I spoke to yesterday is 40. He just had his first child. They are in a one-bedroom flat. They do not really have a route out of it because that is all they can afford.

What do you do in that situation? Do you move back in with family? Not everybody can do that. Do you relocate? What if you need to be near your job? Do you just raise your child and turn the living room, if you have one, into a bedroom? Lots of those flats have open kitchen living. Mine certainly does. I bought one of those starter flats. You cannot really turn that into a bedroom.

There are even people who have bought homes, maybe two or three bedrooms, on new build estates—I met a woman in this situation the other week—who are now thinking, “I want to have a second child”, but they do not have a bedroom and enough space. It is causing some people to even change the shape of their family or the kind of life they thought they would live.

Q3 **Chair:** Sophie, do you have anything to add to that?

Sophie Hale: I will add two points. First, we are seeing people now entering pension age increasingly in the private rented sector, which introduces a whole new set of challenges, for both the Government, who are providing support for those on lower incomes leaving the workforce, and individuals, who are having to think about how they can save and prepare for paying rent in retirement, not knowing what that cost is going to look like. That is a very different kind of prediction than it is for people who own their homes and have a very different set of housing costs.

The other one is to point out that often, even on the same house, those who are renting are paying more than you would be with a mortgage. There is that living costs and living standards aspect to being stuck in the private rented sector. With the cost of living crisis that we have just seen, having such a high share of your income allocated to housing costs is having a real impact on what you can afford to spend your income on. It is the whole heating or eating debate that we saw during the cost of living crisis.

Q4 **Chair:** Peter and Stanimira, one factor that comes up often is around costs. Do you think that, to improve the affordability of home ownership, house prices need to come down? Have you guys carried out any research into that?

Dr Levell: There is always this question: when we talk about affordability, what do we mean and for whom do we mean? You can think about general affordability of housing services across the economy, which is obviously related to price, but is not just related to price.



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It is also the cost of obtaining housing services. The classic case is that interest rates go down and the cost of servicing a mortgage goes down. Prices go up, but housing costs might not have gone up. Housing might be no less affordable in general, but might be less affordable for particular groups of people, so young people trying to save for a deposit and things like that. Yes, I sort of talked myself round the issue. It is just to say that affordability is not just a question of house prices. It is a question of access and your ability to pay for these housing services, which might not be well reflected by the price. That is what I would have to say about that.

Professor Milcheva: It is very hard to get the price down unless there is a crisis. When there is a crisis and a downturn in the economy, then incomes go down also. The way we often measure affordability is price-to-income ratio or price-to-earnings ratio, and normally we compare the earnings of the people who live in the area with the prices in that area. Affordability is often linked to where you can live or work, because of course you might find one area less affordable than another area, so that means you move, but then you have to commute to work. It is all very relative, whether it is focusing on a single person with individual cases or the aggregate.

It is very hard to get prices down. If you increase supply, maybe you get the price down. We have research where changes to taxation or to supply can reduce prices, but this is a small percentage. We might be talking about 2%, 3% or 4%. Something that we speak about is naturally occurring affordable housing, which often is housing in need of refurbishment.

If you want to get a cheaper property, instead of buying a new build, which comes with a new build premium of 20%, more or less, on average, you can find something that is in need of refurbishment. In that way the current debate about retrofitting and energy efficiency, which is very pricey, comes in. Thinking about the social housing sector, that will increase, inevitably, the price for the client.

Vicky Spratt: One of the most contentious topics in housing at the moment is whether increasing supply will make housing more affordable. Long term, yes, it will stop house price inflation going up so much so quickly, but, on this idea of a fall, I really have to stress: I am interviewing people who went into negative equity and some people who are in negative equity at the moment. I am in negative equity because I bought a new build in London in 2017.

Q5 **Chair:** What impact do you think that will have on the wider economy?

Vicky Spratt: People rely on their home going up in value to trade up. If you bought one of those homes I mentioned earlier, so a one or two-bed, you need to eventually go somewhere bigger if your family expands. If your home falls in value, you will really struggle to do that, particularly if you have borrowed high loan to income or high loan to value, so 95% or



even 90%. A house price fall for the wider economy would be really damaging to people's finances, but let us be clear: epic house price inflation has also been really damaging, because now people spend so much on rent. It is a real bind and almost an impossible policy question.

Q6 Chair: Has anyone done any research on that? Some could say that it is the case of the market now correcting itself. Has it been too high and overinflated in some cases? What would the panel say to that? We have seen a slight reduction in home prices, including in London, in recent months.

Sophie Hale: To add a point on the housing supply level, even if this current Parliament reaches the targets, which are very ambitious targets, on house building, that would only bring housing per person levels back to 2021 levels, so mid and post-pandemic levels. We are rolling the clock back only three years on affordability. That supports this point that you are not going to see massive house price falls.

It would take maybe 10 years of building at that much higher level before you would see a real material impact on affordability, moving it back to the levels that we have seen in previous years. It was the early 2000s when housing affordability in England was last at the level that we consider affordable, so five times income. It would be many, many years of that level of house building before you would see affordability rates going anywhere near that level.

Q7 Chair: On the affordability, the NPPF definition of affordable housing includes houses that are 20% below the local market value, regardless of the market value. I have one-bed flats in my constituency that are £850,000. I know that, for many of my constituents, that is not affordable. Ditto in other colleagues' constituencies as well. Should the NPPF's definition of affordable refer to what people in the local area can actually buy? How do we assess what is affordable?

Professor Milcheva: One way to assess it is to compare it to the income. A good way to think, for example, is the way affordability is assessed to access shared ownership. Affordable rent is about one-third of your disposable income to be spent on housing expenditure. That is an accurate measure for affordability. Yes, it is obviously in relation to the income of people living in the given area.

Dr Levell: There is value in thinking of housing as one market that includes the rental sector. When we are talking about affordability of housing, we really mean housing services. The best reflection of that is the cost of renting a property. That tells you how much of someone's income they need to live in a good-quality home.

For me, that is the best general measure of affordability that we have and the most useful to talk about. It is less about home ownership per se than the quality of housing services people can afford to acquire.

Q8 Chair: If we flip that, in some areas, it is actually more affordable in



terms of your monthly mortgage as opposed to your monthly rent. For that property that I am quoting at 800k, to rent a similar property would probably be more expensive than the monthly mortgage payments.

Dr Levell: The monthly mortgage payment is not the only cost. You have to include also that, if you had a deposit, you would have been earning interest on that deposit in the bank. When you include these, this is an alternative measure or an economist's measure. It is what we call user cost of housing, which is this concept of, "What if I bought a house, owned it for a year and then sold it? How much worse off would I be?" That is the user cost. It should line up with the cost of renting if the market is working well. That is the ideal measure. It is so difficult to measure that economists tend to prefer, or at least I tend to prefer, using the cost of renting as that measure of housing services. It is a technical point, but it reframes the discussion a bit.

Q9 **Chris Curtis:** If you run through that calculation at the moment, given that we are existing in an environment where house prices are not going up massively, five years ago, you would obviously have agreed with the Chair's point that renting was far worse value than owning. Do you think that that is true in the current market?

Dr Levell: It is not obvious, no. One advantage of ownership is this expected capital gain. You end up paying a higher price because everyone in the market expects that capital gain. In the days when we were expecting consistently rising prices, that was the reason why price-to-rent ratios went up so much. For landlords, the profit was not coming from renting to the tenant; it was the capital gains in the property. Those days seem to be past, because we are now in a high-interest world rather than low-interest, low-finance-cost world. Things could change.

Professor Milcheva: The other issue is the rental market. There is little supply of rental accommodation and then there is a discussion about build to rent. There is a lot of push to build.

Q10 **Chair:** On the supply, as highlighted, the renters' reform has passed Royal Assent. Do you think that we will see more properties coming off the market?

Professor Milcheva: We have a paper where we look from the investors' point of view. In the US, we look at the so-called multifamily housing, which is essentially big blocks of flats that are rented by institutional investors. We do not look particularly at whether the supply changes. I do not think that there will be a change to supply because of more pro-tenant regulations, for example section 21 and the no-eviction clause, but we see that their performance improves.

Their net operating income, which is essentially a rent, goes up over time. They perceive these properties also as less risky, which means they expect a lower return on those properties at the same time. I do not think that investors see this as a negative thing. Of course, this is not rent control. This is tenant protection, so these are two separate things.



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Tenant protection is a good thing, also from the point of view of the institutional investors. The UK market is much more like mom-and-pop investors, so small investors that own a few properties. It is not so institutionalised and there is this push to make it more institutionalised. Because the new properties will be new builds, they come with a premium on the rent, so they will be more expensive than the old stock, inevitably. Maybe they will cater to some segment of the market, but not to the entire segment of the market.

- Q11 Chris Curtis:** Do we know, first, what is happening and, secondly, what we are expecting to happen to those properties? This argument always seems to happen. It is not the institutional investors and the build to rent, which hopefully we are going to see an explosion of in the coming years, but often we seem to talk about those people who currently own two, three or four properties in the context of, "They are coming off the market. There is no supply any more". What is happening to those properties? Is that what is feeding into the overall lowering of housing prices?

Professor Milcheva: We have a paper from when, in 2016 or 2017, they increased the stamp duty for second homes. They put on a surcharge of 3%. We look at this specific policy and, yes, these buy-to-let properties, as we call them, convert into home ownership properties. There is a drop in the supply of buy-to-let properties, but they go into home ownership, which leads to a small reduction in prices of 1% to 2%, but an increase in rent. We find an increase in rent of around 6%. It is a redistribution policy, essentially. The supply of rental accommodation drops, rents go up and first-time buyers may be able to buy at slightly lower prices.

- Q12 Chris Curtis:** Sorry, I have one more. I know that we have gone slightly off topic, but there is still the same number of people looking for a property. If there is that fall in house prices, surely it should all balance out, because you should have the same number of people moving across to buying properties. Therefore they are decreasing demand for rental properties. Why are those things not cancelling out?

Sophie Hale: Owner-occupier is less densely occupied than the private rented sector, typically, but that should actually push it in the opposite direction, because it means that demand has not decreased by as much as supply has fallen in the private rented sector. It should go in the opposite direction. There are obviously various other market factors in play.

Vicky Spratt: I am wary of opening another can of worms related to this. It is such a complicated market because there are so many factors. One thing we have seen since 2008 is that, when interest rates were very low but the barrier to buying a home was increased after the financial crisis, it was an investors' market, so that was an explosion in buy to let.

Let us say those smaller investors, with one or maybe two properties, leave because of the Renters' Rights Act, because they think, "I do not



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want to maintain a property to this degree". Fine, perhaps they should not be a housing provider. They leave and those homes go back on the market. In theory, a first-time buyer who has left a house share with their friends and wants to buy could buy them, but the problem in reality is whether they can get a mortgage. There is this link between each bit of what is happening and each bit of reform.

Professor Milcheva: When we look at the data and compare the buy-to-let properties and the others, we see that the buy-to-let properties that go on the market are substantially cheaper but similar size. We matched Zoopla with the Land Registry data. They are one-third cheaper. I think that the average price back then was £211,000 and the other ones were £310,000 or something like that. They are maybe in worse quality, so they are more affordable in a way.

The real issue with affordability is London. By far, London is the most unaffordable place, where the average apartment price is £450,000, which a person on an average income cannot afford.

Dr Levell: I take perverse joy in opening cans of worms. This is a really important question, because there has been a big shift in taxation towards taxation of buy-to-let properties. Whereas home ownership itself is a very tax-favoured form of consumption—you are very lightly taxed on that form of consumption as opposed to any other form of consumption there is—buy-to-let investments are one of the most tax-penalised asset classes of investment now. That is because of increases in the stamp duty for buy-to-let properties and the reduction in mortgage tax relief and things.

Some of these things are done in the expectation that they will improve affordability, precisely because they are shifting properties from this rented sector to the occupied sector, where first-time buyers maybe can be those people moving into those properties, but we would expect that to have an effect on rents. The reason is that, if you are deciding whether to put a house in the rental sector or the home-occupied sector, if it becomes more attractive to put it in the home-occupied sector, that means fewer properties in the rental sector. That should push up the cost of rents.

Even though the number of homes is the same—you have not changed the supply—you have changed the incentives to put a house in one sector versus the other. That requires a change in price and will affect the people who remain in the rented sector. These policies that tax landlords might benefit people on the margins of home ownership, but we would expect them to negatively affect the people who are not on the margins of home ownership.

Q13 **Andrew Lewin:** Taking on the challenge of home ownership, I am struck by what Vicky was saying a moment ago about the fundamental challenge of people accessing a mortgage.



In July this year, the Government introduced a permanent mortgage guarantee scheme. The panel will understand all the nuances better than I do, but the fundamental is that there is a deal between the Government and the lenders to offer 90% and 95% mortgages. The Government have said that their hope is that, in the first year, about 35,000 people will benefit.

I am interested in views from across the panel. Is this the right way to go about it? Is this one of the levers that can be effectively pulled to increase home ownership? Also, are you seeing any early impact from the scheme?

Professor Milcheva: LTV is one of the covenants linked to the deposit, so that should allow people to put in slightly less deposit. That means that they did not have to save so much as a percentage, so if they are allowed to put in only 5% deposit instead of 10% deposit. Then we need to look at what the mortgage rate is. Okay, maybe there is a big difference between 95% and 90% LTV in the mortgage rate, which increases the overall cost of the mortgage.

The other covenant aspect is the loan-to-income ratio. The loan-to-income ratio is the real barrier for people living in London. We are working with some loan level data. I am just trying to get my stats. The average income of people getting a mortgage is around £72,000. If the loan-to-income ratio is 4.5% on average, that gives you—I do not know how much. You can do the numbers.

Q14 **Andrew Lewin:** It is just over £300,000.

Professor Milcheva: It is £300,000, exactly. Even if you need to put in a 5% deposit, if the house price is £500,000, it will not affect you much. What is more binding, so to speak, is the loan-to-income ratio in some areas. It is area-specific. In some areas the LTV can be more binding. In some areas it is LTI. In the majority of the areas, LTI is the more binding thing, which comes of course from the banking regulator.

Dr Levell: I have not done my own research on this, unlike Stani, but the Bank of England has a working paper that looks at the effect of the previous Help to Buy scheme, which included the mortgage guarantees supporting these high-LTV mortgages. It is about making home ownership affordable for a different group of people from those who would normally buy those properties. It finds that it increased the share of first-time buyers in markets that were more exposed to this policy, because the houses had high LTVs because they were more out of reach.

The people who really benefited from that were people who were asset-poor—they maybe did not have parental support—but had high incomes, so they were able to satisfy these LTI constraints, but not necessarily the LTV constraints. In terms of who benefits from it, it is these high-income, low-liquidity people who can now afford to move into home ownership, which means less dependence on the bank of mum and dad, but it is still a select group of people.



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Professor Milcheva: There is a paper that also shows that people use the Help to Buy to buy larger homes. They could have afforded a home, but they bought a larger home.

Chair: We are going to come on to some questions on that.

Vicky Spratt: The question of whether it is the right way of doing it is quite important. There is going to be lots of debate about that. I would say several things. We had the mortgage guarantee scheme before, under the Conservatives. It did not move the dial that much, so I am not sure that it is going to suddenly start working now when we have had all the house price inflation post pandemic in 2020, 2021 and 2022. House prices are almost at their highest level ever.

Also, 35,000 people is great, but not a huge number when the Building Societies Association says that there are around 2 million missing homeowners. It says that those are people who have been renting and are unable to save up. The numbers are low in relation to the number of people the building societies expect to move from renting to home ownership at some point in their lives.

It is important to debate whether it is the right question. My job is to present lots of different people's opinions and not necessarily have one myself. You are talking about increasing loan to value and encouraging people to buy homes with 5% deposit at a time when, as we have just discussed, the market is in a really weird place. It is in what the expert market analyst Neal Hudson calls a stall, like a state of homeostasis. Prices are not going up loads, but they are not going down loads. It is stuck. That suggests that it is because they are too high in relation to incomes.

We do not know what is going to happen. You know, 2008 was not that long ago. The pandemic was not that long ago. Is encouraging a new generation of homeowners into enormous debts with small deposits the right decision? As someone who has done it, speaks to people who have done it, week-in, week-out, and writes about their situations, I am not sure. If rates go up, it is going to be challenging for those people who do not have much equity.

Professor Milcheva: I guess that the effect of the Government guarantee is to reduce mortgage rates. I can imagine that that is the idea, because otherwise banks would assume that the chance of prices dropping below 5% is very low. That is what the LTV is used for: to control the credit risk exposure of the lender. If the effect is reducing mortgage rates, I have no evidence yet, but if we start seeing mortgage rates dropping for these high-LTV mortgages, yes, it might make getting a mortgage more affordable.

Sophie Hale: I agree with the points made around whether this is a well-targeted policy and affecting those on low incomes. About 40% of the users of the scheme are on under £50,000 annual income, so the



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majority are on above £50,000. If what you care about is helping those who might struggle the most to ever get into the housing market, it is possibly not well targeted.

There are definitely areas where the income ratio is a major constraining factor, but our analysis suggests that the deposit is probably a barrier for more people, although, as mentioned, it is very regionally specific. Also, it depends on familial support, so the bank of mum and dad et cetera, that might be able to help you out with that.

I also agree with Vicky's point on what kind of costs you are putting on these people if they are needing to pay a mortgage on 95%. Is that sustainable and affordable if they get income shocks or have the kind of cost of living shocks that we have seen in the last decade?

Q15 Andrew Lewin: It is a really important debate. Thank you to all of the panel. Sophie, you just talked about what is "sustainable and affordable". That is the right question, because there will be lots of people who are currently renting and on a reasonable to good income, but, as we have discussed—and I think we are going to do so in more detail—do not have access to the bank of mum and dad, and are therefore unable to get on to the ladder. They might currently be paying £1,500 a month on rent, but, with access to a 90% or 95% mortgage, they could be paying £1,200 a month on a mortgage.

There is a bigger question and I am really interested in the panel's views on this. If you have done everything right, so you are earning £50,000 to £55,000, you have been working hard for 10, 12 or 15 years, you have that dream of home ownership, but what is holding you back and the difference between you and perhaps even your flatmate is simply that you cannot access £60,000 from the bank of mum and dad, is it right that we have a Government policy to help those people? That is a big and important question here that we are wrestling with. I can see the moral case for a mortgage guarantee on that basis as well.

Vicky Spratt: In lieu of the Government doing it, I can tell you that house builders are doing it to shift homes, which maybe tells you something about the fact that homes are not actually selling in lots of places because people do not have deposits. I was in a place called Houlton, near Rugby, the other week. I am not sure whether anyone has heard of it. It is a new town. A really brilliant master developer, Urban&Civic, is behind it. It has got lots of different house builders in, including some of the national major volume builders, but also local builders, to build the homes there, but they are not cheap. They are really brilliant new builds.

I pulled some of the numbers out for you this morning. A three-bed semi-detached house is about £310,000. For a four-bedroom house, you are looking at closer to £420,000 to £450,000. I was going through the listings on Rightmove and they all say, "We will pay your deposit. We will pay your mortgage for six months". Developers are doing this. Barratt



Redrow, which just merged, has its own help to buy scheme called Rezone.

Chair: It is to shift the properties.

Vicky Spratt: Yes. It is basically developer help to buy. On the one hand, as you just said, Andrew, that is great. We are helping people realise the dream of home ownership. On the other hand, I think you should speak to Neal Hudson, who is a brilliant expert. Is this because they do not want to reduce the headline price of homes that are not selling because people cannot really afford them?

There is one thing we have not talked about that is really important with this wider question. We can give people the deposit and change the margin so that more people can access higher loan to value, but what we have in this country is very unusual. We have two, three or five-year fixed-rate mortgages. Most other countries do longer-term fixes. Our market is deliberately exposing people to interest rate fluctuations. I was in a roundtable—Chatham House rules—with a Conservative Minister and the heads of mortgage lending from major lenders. I asked, “Why don’t you change that?” “Well, it wouldn’t be competitive”.

We are an international outlier. If developers want to pay people’s deposits to keep house prices at a certain level, great, we are getting people into home ownership, but they are going to be on a two, three or five-year fix. We are living in a really volatile time. That has always been the case. Ask anyone who lived through it in the 1990s. It is not a small thing for somebody to take on. The deposit will get you a home, but you might then have some other problems.

Professor Milcheva: It might be that, even without the Government guarantee, the lenders start to provide higher LTV mortgages if they need to and the competition goes up. If there is a real demand for mortgages, they have to get the mortgages out on the market. We do not know to what extent. It is similar, for example, for shared ownership. We have the so-called mortgagee protection clause. Lenders tend to push for guarantees from Government just to launch a new product, if they can get it, to an extent. We need to see this through reducing the price for the mortgages. That will be the ultimate sign of whether that guarantee has an effect on costs.

Q16 **Sarah Smith:** Do you want to say a little bit more about how you understand the connection between reliance on a bank of mum and dad and housing affordability to start us off around this topic?

Sophie Hale: There are two ways of thinking about the bank of mum and dad. There is the typical way that we think about, which is where you are gifted money from your parents to help pay for the deposit. We have already talked about how much of a barrier that is and for what kind of people, but a lot of first-time buyers are relying on that as a way to fund



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their deposit. The percentage of people who are using it has increased a lot in the last 20 years.

The second way that is also important to think about is this trend that we have seen of living with your parents for longer, which has also been brought up. That has also increased in the recent period. We have a lot more young adults still living with their parents, typically facing a lot lower housing costs than they would if they had to move into the private rented sector, and then having the ability to use that to save for a deposit. It is the same as a gift of finances for a deposit, but it is flowing through them and into them in quite a different way.

Both are helping them move into home ownership, but obviously it is very unequal in terms of who is able to benefit from that support. It really relies on your parental income, your parental wealth and their ability to support you. Also, if your parents live in London, they are much more likely to have a smaller house there where they might not be able to sustain you over a longer time period, but, if they can, they can give you access to amazing jobs. If they live in remote areas in the UK where there are not amazing jobs for young people, it could affect the labour mobility of those young people who are staying at home for longer in order to save up for a house.

Dr Levell: In a way, the bank of mum and dad is saying that it is good to have rich parents, which we already knew. The question is almost whether there is something specific about housing that makes it different. In the past, when the house price boom was going on, it was about whether you could get on this ladder and get access to these privileged returns that you do not have to work hard or innovate for. You just get these returns from high house price growth. I do not think that that world is going to come back soon.

The other thing it might unlock is access to certain labour markets and professions. Particularly, we know that the economy is very London-centric. There is a huge earnings premium from being in London. You get much more human capital from being in London. You can make connections and things. It is a question of, for example, whether it affects people's location and ability to access these things. Does it lead to the wrong people accessing these markets, so people who might not be the best talented or make the most advantage of being in London? Maybe it is the hypothetical dumb rich kid who is moving there instead. That is the question of why it might matter more than other forms of intergenerational wealth persistence or equality of opportunity.

Vicky Spratt: Who owns a home has also changed. You are 50% more likely to own a home if your parents helped you, so it has already changed home ownership. When I interview people and ask, "How did you do it?", they say "My parents helped" or "We lived at home for a long time". Owning a home was always a status symbol, but it is now even more so.



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That links to family. If you can have children, you need a house. The people who have more than one now generally seem to be people who have quite big houses. We know, because we know how many people have had help, that they probably were helped by their parents. It really has changed the lifestyles of younger adults and I think it will continue to do so.

- Q17 **Sarah Smith:** I certainly had not considered before that there was any disadvantage to your parent having a home in London. You have said that there is a bit of an issue there around the size of housing and therefore the opportunity to move back in. There is such a stark difference if your parent has a house with access to London and the south-east. Even if your parent owns a home up in Blackpool or somewhere in the north, the access that you would still have to any capital for a deposit is significantly limited to enable you to access the market down in the south-east. As you say, there is that huge disconnect with access to opportunities. I am just pressing as to what the data says about that inequality gap not even just in access to home ownership but specifically between London and anywhere else in the country.

Sophie Hale: We did some research last year on the effect of living with parents on your labour market outcomes, so on the likelihood of being in a low-paid job, for example, which would be the knock-on effect of you being trapped in these lower-productivity areas. We found that those living with parents have a much higher incidence of being in low pay, as you would expect, because they might be requiring that support system.

What was slightly positive in what we found is that those gaps close over time. It does not have as big an effect as you might worry on their longer-term prospects. They seem to catch up quite a bit of that gap over time.

That might be a story of two halves, so some people who are really trapped living with their parents and unable to move or look for good job opportunities because they cannot afford to live in the private rented sector, and a separate group that is using it as a way of saving the deposit, spending a couple of years living with their parents, making a big move to London with the money that they have saved from the job, and then having that catch-up growth in the labour market. We were not able to distinguish between those two groups. It was not possible in the research we were doing, but that is definitely something we should be aware of.

- Q18 **Chris Curtis:** I was going to jump back in on Help to Buy. You talked a little bit about it before. Looking at the schemes we have done in the past, there are, I suppose, two questions. Did it work? Should we do it again?

Sophie Hale: Where Help to Buy and then the permanent mortgage guarantee do work is in reducing that deposit barrier, which, as I said, is a major barrier for people trying to buy homes. Regarding whether they



are the best-targeted policies, particularly from a Resolution Foundation perspective, we care about those in lower and middle-income households and younger, first-time buyers who are struggling to access the housing market. Is it going to be well targeted to those on lower incomes?

The argument, as many people have said, is that it is probably going to be targeting those on slightly higher incomes. That is what we have seen in the scheme so far. The majority are on over £50,000. From the perspective of just improving home ownership, it might be an effective policy.

- Q19 **Chris Curtis:** We spend a lot of time pretending that Help to Buy is a great scheme to get people into home ownership, whereas actually the original use of Help to Buy is to support the development of the house building market at a time when it might be struggling. There is possibly an argument for doing that to smooth out the curves. Is there a more effective or progressive and better-targeted way of doing Help to Buy that supports the people the Resolution Foundation might be interested in, while also supporting that the housing development industry during a downturn?

Sophie Hale: If you look at the policies that we have talked about before, one of our policies was a citizen's inheritance. That is a fund that you give to young people that is restricted to very specific uses. Home ownership is one of those but furthering education would be another use of that.

The Conservative party recently recommended a policy that is similar to that, which was the national insurance cut. What is positive about that policy in terms of it being progressive is that, first, it encourages movement into work and, secondly, it would be slightly more progressive than ones where the benefit that you get is related to how much you can save, for example the lifetime ISA, which is another scheme that is in place to help people save. The citizens inheritance is the policy that we think would be the most fair.

- Q20 **Chris Curtis:** It would be difficult to use that in order to help smooth the curves of the development market, though.

Sophie Hale: It might be slightly difficult to do that.

Professor Milcheva: It is great if we could smooth the curves in the development market. If you look at historical data on private sector development, the volatility will always be there, but they only build up to a certain level. When we had a lot of house building, it was when the local authorities were building in the 1960s and 1970s, and we never ever got back to that.

One way to smooth the curves is through this affordable homes programme, where we give grants to registered providers directly for house building. There are different ways. Now there is the National Housing Bank as well, which is looking into public-private partnerships



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through Homes England. The funding models can be designed in such a way that they can smooth construction, but of course it is down to these details.

You do not give the subsidy to the homebuyer; you give the subsidy to the developer, but in this case the developer is a registered provider. In most cases it is a non-profit registered provider. Of course, we also now have for-profit registered providers, but mostly they do not take the development role. They would buy section 106s, for example.

For me, that is the most effective way to smooth development, rather than expect the private sector to smooth it. The private sector is not interested in smoothing development, because the business model is to be an opportunistic development. The other way to smooth development is to have a different funding model, where, instead of selling, you have this very long-term rental, so your cash flow looks very different. The incentive is not to sell at the maximum price when you build it.

Q21 **Chris Curtis:** That is build to rent.

Professor Milcheva: Exactly, but specific structures of build to rent, not necessarily every possible structure. That is the most effective way.

Vicky Spratt: On Help to Buy, before we move on, it is really important to talk about what has happened with that scheme, because I do not think there is enough research. I would like to see more on it, actually. It relied on house prices going up. You were taking out this big government loan and the Government were going to get a boon when you sell, because they get more if your home is worth more. That has not happened for some Help to Buy people, me included.

Another thing that is not often talked about is that the loan was interest-free for the first five years. Great, that works if you can remortgage and pay off the loan because your home has gone up in value. If it has not, after five years you will then be paying your mortgage and the loan.

I did an interview. This is not a secret conversation I had. You can read it; I wrote it for *Tortoise* years ago.

Q22 **Chair:** There were press reports on this as well.

Vicky Spratt: Yes. I interviewed George Osborne's former spad, who came up with the idea. I told him I had used the scheme and he was like, "Surely you have repaid your equity loan". I was like, "If I had £200,000, I would not have used the Government scheme to buy a house". The thinking on that was not clear, because they expected things to happen in the market that have not. Potentially, if you have a similar model, you end up with people paying mortgages—and, as we now know, interest rates can rise very quickly and unexpectedly—and a Help to Buy loan.

There is one last thing I would say, seeing as we are going to "build, baby, build" 1.5 million new homes, many of which will be new. There is



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the new build premium, which we have discussed. If you have a housing access scheme such as Help to Buy that is only available on new builds, which go down in value, generally speaking, not up, or at least not in the short term, you are exposing people to that, and they have a Government loan and a mortgage. It needs to be thought about in a more 360 way. Having spoken to the architect of the original scheme, his shock when I said that I had not repaid my equity loan was something that has stayed with me.

Q23 Andrew Lewin: I briefly wanted to come back in on mortgage guarantees, because that is the direction of travel with Government policy. It was in the manifesto. It was only July this year that it came in. I am interested in the panel's view on whether there should be a cap on income. I take your point, Sophie, that it is going to benefit a certain group, so those on slightly higher incomes. We have had the discussion about the fact that, if they do not have access to the bank of mum and dad, that is still a good thing, arguably, for advancing social mobility.

I suspect that we would all agree that we do not want somebody who is straight out of university, gone to work for Goldman Sachs, is already earning £110,000 and then, through this scheme, can buy something worth £500,000 aged 24. That is not its purpose. Should it be capped to income, or are there other ways that we can look at maximising its impact to benefit certain groups?

Sophie Hale: I would worry about looking at capping income eligibility in terms of the incentives in the labour market. It would need thinking through, let us say. You might have people—I do not know—dropping days of work just to meet eligibility thresholds. It could affect the choices people are making in order to get on the housing market. Exploring those options and thinking about ways where we can make sure that it is a better-targeted policy would improve it from our perspective. It is what we argue is probably the weakness in the scheme as it is at the moment for helping lower-income households.

Vicky Spratt: You also have to take a regional view, because it is about incomes and house prices in every given area. I know that we have talked about the housing market as one market, but actually it is lots of regional markets. If you capped incomes in a wholesale way, you could get into quite big trouble.

Professor Milcheva: Housing markets are extremely regional and localised. I know that, for example for shared ownership, we have this 90k cap for London and 80k for outside London, but obviously the differences in income are much bigger. That is the risk you run and then you cap it.

You mentioned the Goldman Sachs example. Maybe this person would not need a high-LTV mortgage anyway. Why you would go for a high-LTV mortgage is if, for example, you have a high opportunity cost. For example, you could use your deposit. You have the deposit. Let us say



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you have 100k as a deposit, but instead of putting it in your mortgage you put very little in, so £10,000, and use the £90,000 to invest on the stock market. If you have a big difference between the mortgage rate and the return on the stock market, you would be incentivised to have a high-LTV mortgage.

That is when you think, "Maybe we should cap it to control this kind of taking advantage of this". I do not know whether it is taking advantage of it, because it increases the wealth of that household anyway. What the alternative use of that deposit is, essentially, is the question. Now we are in a high-interest-rate environment, so that is less of a risk. If we were in a low-interest-rate environment, like three or four years ago, maybe, yes, you could consider that. It depends how long the mortgage guarantee is for, so the duration of it, and maybe keep it more flexible.

Dr Levell: There is something that makes me a little nervous. Banks are not offering these high-LTV mortgages to these people for a reason. These policies are to encourage what Tyler Cowen used to call "home borrowership". You are not really owning the home. You own 5% of the home when you have a 5% LTV mortgage. If you add an income cap as well, the Government are taking a risk on a sub-prime loan, essentially. Yes, that makes me a little nervous.

Professor Milcheva: Yes, especially when you are not expecting house price growth.

Dr Levell: No, exactly.

Q24 **Sarah Smith:** Briefly concluding on the topic of bank of mum and dad, other than the citizen's inheritance fund that you mentioned, are there any other specific suggestions or alternatives that we have not yet discussed on how you can counter the inequality caused by the bank of mum and dad, which you are not going to stop happening, to level that playing field?

Dr Levell: There is probably zero chance of this being implemented. The way we tax housing, arguably, as well as being unfair in lots of other ways, probably worsens these misallocations. If you think about something like stamp duty, the IFS does not like stamp duty. It is a transactions tax. Also, it worsens these credit constraints that people face, because it must be paid up front, so you might have to take out a loan to pay it.

The other thing is that we do not have a fair system of taxing occupied properties and the wealth. That tax break is capitalised into house prices. That pushes up house prices, which makes it harder for these people to access those loans. The way we tax housing, as well as all sorts of unfairness and inefficiencies it generates, also worsens these credit constraints for people. If I had to pick how I would relax credit constraints for first-time buyers, it would be reforms to the tax system to make it fairer and more efficient and to target this problem.



Professor Milcheva: I agree. We have done some research as well. For example, there was the stamp duty holiday in 2020. Was it 2020 or 2021? No, it was 2020.

Q25 **Chair:** It was during the pandemic.

Professor Milcheva: It was during the pandemic, yes. We measured the tax incidence and saw that the people who benefited from the stamp duty holiday, so not paying stamp duty, were the sellers. The profit was not split 50/50 between the buyer and the seller. The seller was in the better bargaining position through the sale.

The most disadvantaged people for this transaction tax are the first-time buyers. The people who have not bought a property are the most disadvantaged. Once you have a property, maybe you struggle to move into a bigger property. It might not be the most efficient use of the property. You might struggle to upsize, downsize or relocate, but the most disadvantaged people are the first-time home buyers.

Q26 **Chris Curtis:** Coming back to Peter's point, it is very hard to find many people who are not convinced by stamp duty being a bad tax that we should probably get rid of. Ultimately, as part of wider property tax, the rest of the property taxes are incredibly regressive. Stamp duty is the only progressive one. If you are going to get rid of it you probably need to replace it or think about the wider property tax system. Do you have a view on how that might work?

Dr Levell: There is a neat symmetry. Stamp duty is progressive, but council tax is heavily regressive. If you do a switch and cut down stamp duty rates and make the council tax system much more progressive, those two things will offset each other. We are pushing for proper property taxation so that there is no free lunch there.

Professor Milcheva: In the US, you do not have a stamp duty. In the US, you have much higher property taxes in return.

Vicky Spratt: I suppose that, whatever you do with council tax, my colleagues at more right-wing papers will call it a mansion tax, regardless of whatever it actually is, so a land value capture or property tax, however you frame it. Whatever you do or do not do with stamp duty, after the pandemic, with the stamp duty holiday, we saw that, if you are turning it on and off, that is when you are creating a problem. That is what all the data shows.

If you are doing it in a short-term way, you make people who can afford to pay more pay more. They think, "I am saving on stamp duty. I will put in a slightly higher offer". If it is a long-term thing, I think that you would see that even out over time.

It is impossible to overstate the damage that the brief, "We are going to do this for a bit", messaging in 2020 did to the market at a time when people had been sitting in their houses. We saw some of the highest,



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fastest house price inflation ever that year. I remember reporting on it, watching it and thinking, "This cannot be happening". It was almost on par with what was going on in the 1990s, running up to the crash. It was scaring a lot of people I really respect. If stamp duty is on the table, it has to be done so carefully and probably long-term, not on, off, on, off.

Professor Milcheva: The incentive was to boost the housing market, because the housing market was dead during covid. That policy objective was achieved, so we saw a massive increase in transaction volumes as a result of the stamp duty holiday. If that is the objective, it works.

House prices increased. I cannot remember by how much; it was by 3% or 4%—I think that that is what we measured. That, of course, offsets all the benefits from the reduction in taxation as well. If you want to increase affordability with a stamp duty holiday, you do not, but you definitely increase transaction volumes.

Q27 **Chair:** One other area is the actual homebuying process. You hear many stories of how much money has been lost during the transaction stage, and the number of buyers going into it not recognising how long it will take in some cases.

Even the Government have acknowledged that the number of properties and transactions that are falling through, which is one in three, is costing people around £400 million a year. A *Times* report stated that issues in homebuying cost the economy £950 million a year. It is quite a big issue that can put quite a lot of people off taking that leap. Vicky, do estate agents represent the needs of sellers in property transactions, or should there be a registered agent in the middle who acts on behalf of the buyer? Would that be a fairer and less costly process?

Vicky Spratt: That would make things a lot fairer and a lot easier for a lot of people, because, ultimately, the seller is really in control of what is happening with the agent, and that is how the commission structure works. If you are the buyer, no one is really backing you, apart from your solicitor, if they are good. There are some, sadly, who are not. If you have a good conveyancing solicitor, you have someone on your team, but otherwise a lot of the conveyancers are churning out home sales. They are not experts who you can call all the time. I have had that experience myself.

You can get a buying agent, if you can afford one. They do exist and they are brilliant. They know so much about the market and they will go in to bat for you, but that is not something that is accessible for a lot of people.

A lot of the problems in the process are also down to the lenders, which we do not talk about enough. Increasingly, the problems are with leasehold, building quality and building safety. We should definitely do that, but there is now such an enormous problem, and that is what is causing sales to fall through and become so gummed up.



Q28 **Chair:** One of the issues that we found when we talked with managing agents was around transparency in terms of service charge costs, and maybe an agent would be better placed in terms of presenting that to the seller.

Professor Milcheva: Specifically for shared ownership, I would like this process to be improved. It is a way more complex product, not every solicitor understands shared ownership, and not every mortgage broker deals with shared ownership either.

Also, when you come to staircasing to buy more shares, that process is also very costly. I have done a lot of research into shared ownership. If we can automate this process of buying more shares, via an app, for example, in the way that you buy more shares on the stock market, transaction costs would be much smaller, which would be great.

In terms of buying full ownership, the duration is four to six months on average. At any point, the buyer or the seller can pull out, which has advantages and disadvantages. The other thing that we have here in the UK is being in a chain. When you are in a chain, the whole chain can fall apart, and then you need to start afresh. That is extremely time-consuming, but also a very consuming process emotionally.

From my personal experience, the process could be done faster, but, if you are a first-time buyer, you are not experienced. You are just anxious and afraid, and you do not understand what is going on, because you do not have this hand-holding, guidance and reassurance. The longest bit is towards the end, when you have your searches back, et cetera, and then you are like, "What questions should I ask?" A lot of questions arise, then the solicitor sends you this very cryptic email that you do not understand, and you are like, "What does it mean?" Especially if you are in a leasehold, you might ask, "What does it mean in the lease? What should I do?"

Then you start asking back and forth, which can take months, because there is all this uncertainty. If you have a buying agent, maybe that will be solved by them just guiding you through the process. Mortgage brokers only advise on the mortgage. Maybe that can be improved, but it is property-by-property-specific, so you need to look into the leasehold of every property. The next property might be a very different experience to the previous one.

Vicky Spratt: It is different in different parts of the country. Where you have large numbers of flats and leasehold, the problem is lenders now pulling out. The conveyancing process, as you just outlined, is a nightmare, and really is contingent on how good your solicitor is, as I said before. If you have a great solicitor, you are going to be fine even if you are a first-time buyer.

What I am hearing more and more now, which you will not get data on because the banks do not want to tell you exactly what their lending



processes are—that is a business decision that they are making—is that they are pulling out on flats after searches. I recently spoke to somebody who has a block under 11 metres. There is no requirement for an EWS1. The lenders pulled out of the sale at the last minute because they want an EWS1, but that would cost everybody who lives in the building thousands and thousands of pounds. Lenders can do that. They are really nervous, and perhaps rightly so.

What has been uncovered since Grenfell is, frankly, absolutely outrageous, but we are not talking enough about that part of the process. Sales are falling through for quite good reason. If we are going to “build, baby, build” all these new homes, they need to be really good-quality homes, because rushing homes out that are not particularly great and are leasehold is part of why the market, particularly in London, is now so gummed up. It is not moving, because sales are falling through and lenders do not want to lend.

Chair: I think that we are going to come on to that, Sarah, in terms of new homes.

Q29 **Sarah Smith:** In terms of the 1.5 million new homes that we talked about in earlier contributions, you have expressed that those are not going to have a huge impact on affordability because of the need to build at such scale over a longer period of time. I would be interested to know at what point that scale of house building starts to have an impact on the affordability question.

Beyond that, and maybe drawing our attention to your knowledge of other countries that have a very different functioning housing market, what are some of the other opportunities for us to try to tackle this problem? Everything so far points to the fact that there are lots of things that are needed simultaneously, which is what, in many ways, the Government are trying to do, but it is hard to do it at the pace that is needed. What are we missing currently that might put us in a more favourable position in five or 10 years’ time?

Sophie Hale: On the point that I made earlier that you are just going to be getting back to your 2021 levels of per-person housing, it does not necessarily mean that it is not going to be having an impact on affordability. It is not going to be bringing the house price down by very much, but you have to think about the counterfactual. If we were not building those extra houses, affordability would be getting worse. You are still improving it, but just not having this effect that everyone is very worried about, which is crashing the house price market. It is really important to clarify that point.

Dr Levell: We make statements saying that, even if you build loads of houses, they are still going to be very expensive. That is not saying that building houses does not help. It is saying that the problem is really big. We should just be clear on that.



You asked about other countries. Part of the research that we have done is to look at how responsive local housing markets are in the UK in terms of how much additional supply you get when there is a price increase. We looked over a 25-year period and found that, if house prices doubled in an area, you get 14% additional supply in that area. That is a very low number compared to similar studies that we have done in the US, Germany and France. There is clearly an issue in this country that is not in place in other places in terms of how responsive housing markets are to these incentives to build more.

On the supply side, we know that there are big issues around the planning system. One thing is that we have a very discretionary system where you apply for planning permission. It is a very long, idiosyncratic process. You do not know what is going to be approved and what is not. You can build something and then be told, "That is not what you are supposed to have built", and have to tear it down.

In other countries, there is more of a zoning system that pre-specifies what you can do. Putting restrictions on what can be built, but making them clear in advance and saying, "In these areas, you can do this and that", and taking that uncertainty out of the construction process, is probably the biggest difference between the UK's planning system and that in other countries.

Vicky Spratt: I would just add that it is reassuring to know that house price inflation has been a problem in lots of western countries. We are not the only one that has experienced what we have over the last couple of decades. We have maybe experienced it more acutely because we have not built very much, but it is a global problem, and certainly in western economies.

It is about planning. Germany is a really good example, because it is better at compulsory purchasing land, for instance. That is going to be in the Planning and Infrastructure Bill and will facilitate more building. It is important to look at that underneath it all, but we should be reassured—or perturbed, depending on your perspective—that this is something that is happening everywhere. Nobody really has an easy or quick fix to it, but our lack of building exacerbated it here.

Professor Milcheva: We like to compare with other countries, but one thing that is very specific to the UK is shared ownership, which I am going to mention again, where you can buy a proportion of the home. It is quite unique. We should extend this scheme to go beyond what we currently have to apply to more homes. The UK is really leading on that. I know that Norway has something similar, but it is not really comparable. We really are the only country that has this institutional set-up for partial home ownership, which is sometimes, for people in London, the only pathway to home ownership.

Q30 **Chris Curtis:** Can I just pull out a couple of things that you mentioned, Vicky? You talk about us not wanting to be building rubbish things. I do



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not think anybody disagrees with that. Part of why building new homes is perhaps not going to decrease the overall cost as much as it could is because of regulation. The specification of what you have to build necessitates the property then being sold at a price that is too expensive.

Going back to the Houlton example, if you take all the things that we have decided here that you need to put in a house and a property, and then the space standards on top of that, it is very difficult to build a new family home in this country for less than £400,000. Should we look at easing around space standards or anything else?

Vicky Spratt: You should speak to the chief executive of Urban&Civic about the homes that they have built in Houlton and why it has worked. He could answer this question far better than me, because he really enjoys the standards. He enjoys building big homes for people. They had to move some newts and create a newt corridor, and he was so proud of it. He thinks that it is brilliant that the children who are moving to this new town are going to know what a newt is. As somebody who is building homes, he would say that it is a great thing.

Let us take what has just happened with standards in London and everything that was announced last week. Do we want to get rid of double-aspect windows? Yes, we can, and we might build homes faster, but then they will not have as much light. Will people want to live in them in years to come? It is really complicated. You could argue that standards and regulation have slowed things down. You could argue, as I saw in Houlton, that they mean that people are building homes that are beautiful and are going to stand the test of time.

Q31 **Chris Curtis:** It is not just the speed. It is pushing up the price while they are doing it.

Vicky Spratt: Yes, partly, but, as you will know, Chris, as well as I do, there are other reasons why the prices are high. Urban&Civic's model, for instance, is increasing the value of the land, and then hoping that everything continues to go up in value so that they get a return on their investment. It is not just about the cost of actually building. There are other reasons why prices are high as well. Inflation to building costs and labour costs is really pushing up the problems that builders have with their margins.

I absolutely take your point and, of course, there are examples where it has been a huge hindrance, but that is not the whole story. I see some of the worst housing in this country. That is my job. I see some absolutely terrible new builds. I was in one recently, where I went to shut the window and it did not fit the frame, so I find it hard to believe that driving down standards is the answer, but I see the absolute worst.

Professor Milcheva: I agree that driving down standards is counterproductive.

Q32 **Chris Curtis:** I was not using the phrase "driving down standards". On



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space, for example, we have very high standards.

Vicky Spratt: We have some of the smallest homes in Europe.

- Q33 **Chris Curtis:** Yes, and part of the reason why we have some of the smallest homes in Europe is because we have some of the oldest housing stock in Europe. We have some of the oldest housing stock because we are not building enough new homes. I think we can agree that the size of the homes that we are building is bigger than the homes that we currently have, but is the current size too much bigger?

Professor Milcheva: We should not rely on building standards, sizes or aspects, et cetera. I am not an architect, by any means, or a construction expert. The quality of the home is important. That means that you will not spend much money during the life of the home on refurbishing it, et cetera, so it might keep its value better. What determines the price is the land value, and the alternative use of the land. You might not decide to develop because you want to wait for 30 years. As Peter said, it seems that developers are not responding much to changes in price.

Maybe the alternative use of the land increases this land value so much that it might be worth waiting 30 years and building something else that might have a much higher value. This is called real options, essentially, where you try consider, "Should I build now? Should I build later? What should I build?" That is influencing the developer's decision-making. Of course, developers have huge margins of 20% or 30%, or more, because it is a very risky undertaking, because you are speculating on the price two, three or four years down the road. It is a risky business. It is not like they are evil. It is just that it is inherently much riskier.

Vicky Spratt: I would also direct you to a builder that I met in Derbyshire the other week. He told me that it does not cost him any more money to build a five-bedroom house than a three-bedroom house.

By the time he is there, and he is building a few, there is not really a huge difference. He is now only building more luxury homes, because he can make more money on them, so I also question that idea that it is costing more. I am not a builder, but, if you speak to some, it might challenge that idea.

- Q34 **Sarah Smith:** Another element, again touched upon in some of the earlier remarks, is the cost of retrofitting and what we do about existing housing stock. I was struck by a report out over the summer about the increase in empty homes as a result of the change in policy around loans and finance available to people buying disused properties in the early bits of the coalition Government. I am just interested in where you think the solutions might lie in terms of bringing some of those empty homes back into use, and what works if we were looking at utilising those properties as well.

Dr Levell: I do not know about the specific policies about loans for disused properties. One of the attractions of taxing land values, which we



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do not do—the closest that we approximate to is council tax—is that it encourages people to make best use of the land that they have. You will still pay the same tax, whether you are living in a house, whether it is empty or whether it is rented out. That is something that would encourage the use of the land or the properties that we have.

Professor Milcheva: I agree.

Sophie Hale: Similarly, removing the transaction taxes that make those transactions more expensive would help people offload assets that they may not have the finance to retrofit or to do that activity themselves. Any kind of transaction taxes may get in the way of that.

Vicky Spratt: I hear about empty homes a lot. Somebody I was interviewing said the other day, “Why do we not just use all the empty homes?” I have not seen good data on geographic distribution. I would really like to see that. If anyone wants to do it, send it my way.

I was in Grimsby a couple of years ago with a community group who were doing up houses that had been empty and renting them out to local people affordably. I thought that that was really interesting, because Grimsby did have a lot of empty homes. Some places have more than others. They had the capital to do it as an organisation, and had access to credit.

Let us say that I wanted to go out and do up a house. Again, lenders are the barrier here. There was a help-to-build loan available that is no longer available. I would love to see something such as that. If you go on PropertyTok, you will see so many young people who want a doer-upper, but it is very hard to get a mortgage or to get the capital to do it. Again, it is regional. It depends on where you are. In London, if you want to buy land, it is almost impossible.

Q35 **Andrew Lewin:** Stanimira, you raised shared ownership. I would say to the panel the same that I said to the former Deputy Prime Minister a few months ago: I am perhaps an unusual case in that I benefited from shared ownership. It so happened that I was able, living by myself, to get on the ladder in that way. I then met my partner, now wife. We combined our incomes, staircased and we are now on the full housing ladder house. That was a success. I am not bragging, though, because there is a serious point here, which is that that does not seem to be a particularly common experience. Lots of people talk about getting stuck within shared ownership. There are real issues about service charges.

Stanimira, since you raised it first, is there a future role for shared ownership in addressing this question of whether we should have a low-cost home ownership model? If so, how might we change and improve it in the future?

Professor Milcheva: I am a big advocate of shared ownership. It can solve a lot of issues around home ownership. You are counted in the statistics as a homeowner, although you own only 10%. It can have the



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psychological effect of, "I am on the housing ladder". It provides security of tenure, because you cannot be evicted so easily. You are a tenant for the other 90%, but you have more protection around evictions as well.

It is a very complex product. The future is definitely to automate things around staircasing, because we want to incentivise people to be able to buy more and more shares, maybe even early on in the process. You want to buy shares earlier, before house prices go up and it is then more expensive.

There is a lot of strategic behaviour in terms of how and when you buy shares, et cetera, but it is often either when you remortgage and the value of your share has gone up—you take a bigger mortgage and then buy more shares in this process—or perhaps when you are single and then get a partner, and the income increases. When you have a substantial income shock, you can buy more shares.

The issues that have been raised with service charges in particular, and with fire safety regulations, when you are feeling stuck in a property because you cannot sell, apply identically to all leasehold properties. The issue, however, is that shared ownership is sold as an affordable product. One thing that can be done is just regulating service charges, because management companies cannot be influenced by registered providers saying, "We have no control over service charges".

Service charges are high, but they also grow quite a lot within a short period of time. We could have some sort of regulation around service charges in terms of the pace at which they grow. When you are buying shared ownership specifically, there could be a projection of what your service charges would look like in the next 10 years.

In some cases, the service charge is as high as the rental payment, so it is a big proportion of what you are paying, but that is often outside the control of the registered providers. It is really because you are labelling this as an affordable product. It is about getting the messaging right and warning people about where things might go wrong, so that, when they purchase the product, they know, "I need to pay attention to this", et cetera. Fire safety regulations apply to high-rise buildings and are the same for everyone who owns a property in a high-rise building.

We are doing some research now on comparing shared ownership with full ownership. The starkest difference is that the average income for someone in shared ownership is £43,000. The average income of a full owner with a mortgage, who buys on the open market, is £68,000. It really helps people with those incomes to buy. They are buying properties worth a similar value and of a similar size, but they need an average deposit of £11,000. The loan is £107,000, which means that they do not have the LTI constraints, because they are only buying a share. The average share is 40%.



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A lot of these things that we are talking about—the LTI and the LTV constraint—are addressed by just buying a proportion of a home. You can use that not just for shared ownership. You can buy a proportion of any home, if you allow developers to sell proportions of the home, and if you convince the mortgage lenders to provide a mortgage on this kind of product. They were convinced back then, because shared ownership has been around for many years, since the 1980s, by having this mortgage protection clause, which allows lenders to look at this product and go, “It is not a lot of risk for me to have a shared ownership mortgage”.

Q36 Andrew Lewin: Does anyone else have anything to add on the merits or otherwise of shared ownership? I am conscious of time.

Vicky Spratt: It has helped so many people. I was interviewing a young woman recently who got into shared ownership and out of private renting. She does not qualify for social housing. She would not have been able to buy a home any other way. She and her kid are in a more stable situation than they would have been otherwise.

Service charges are a huge problem, but there is an issue with flats. In fairness to the managing agents—and I have written about their terrible practices more than most, so it is unexpected for me to defend them—the cost of insuring buildings has gone up.

Professor Milcheva: I looked into the data. It has gone up, but it is not really the major expense.

Vicky Spratt: The rebuild cost on my block of flats, according to my insurance broker, has trebled since 2020 because of inflation on building materials. When we were recently renewing our insurance policy, I thought, “We are being robbed”. I looked into it. That is the insurer. On flats, there is so much nervousness now, for good reason, because so many of the blocks are not up to standard, with missing fire breaks and insulation that should not be there. I have been trying to find out what cladding is on my block. The architect does not know. The developer does not know. The builder does not know. No wonder the insurance is going up. I hear you, but there are other things at play. If you regulated the costs, but insurance costs are going up, someone somewhere is going to struggle.

Professor Milcheva: The insurance costs can be controlled by providing more certainty around cladding and building control, et cetera.

Q37 Chair: I just had one final question, in light of everything that we have discussed this morning, on the issue around investments in second homes. I would like just a quick response. Should the Government be doing more in terms of disincentivising second homes being built and bought?

Professor Milcheva: I do not think that the Government should disincentivise second homes. The Government should incentivise. They



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should not constrain people having second homes. It has already been sufficiently penalised.

Dr Levell: To the extent that it is an issue, it is one of underlying wealth inequality. That is what people are really concerned about, and second home ownership is a symptom of that. Is it worse to buy one really big house than to have two small ones?

Sophie Hale: Underoccupancy is really the issue that you are most concerned about, and that could be across two homes or one. Property tax reform could help with that issue considerably.

Vicky Spratt: In some countries, you do not have to be wealthy to have a second home, but they have more housing than we have. Some unintended consequences of doubling council tax on second homes, in Wales, for instance, are really interesting. I was speaking to a woman there recently who wants to sell her house, but she cannot find a buyer because it is in an area where lots of people used to have second homes but now they do not want them. That is an unintended consequence of a tax that was well intentioned on a local person. Anything that you do has to be done very carefully.

Chair: Thank you very much. Those were really insightful and interesting comments that we will use as we go ahead with this inquiry. Thank you to our guests for coming this morning.