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Has Brexit burst the British housing bubble?

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The fall in value of the pound is having a negative impact on property prices.

BY DANNY DORLING

The high cost of housing in the UK has almost nothing to do with supply and demand. What matters is political control. Rents are high because landlords have gained the upper hand politically. The consequences are vividly illustrated in Ken Loach's new film focusing on inequality in Britain, *I' Daniel Blake*.

As a student in the 1980s I paid £9 a week to rent a room in a shared house in Newcastle upon Tyne. Private rent was low because for decades before then rents had been regulated. It was the lifting of that regulation that meant rents could rise so that now students have to borrow vast sums of money just to have a place to live. Today's students pay many multiples more in rent than I ever did, and millions of families with children are also struggling because they have to rent privately.

Because rents have been allowed to rise as high as landlords can get away with, the landlords have been encouraged to buy up more and more properties that were once social housing or lived in by a family, who had bought the property with a mortgage. The number of people renting privately doubled between the last two censuses of 2001 and 2011. That has never happened before. It was the end result of years of deregulation and the withdrawal of our government from representing our interests in housing.

Well-regulated private renting is a benefit, but without rent regulation it becomes a social evil.



Housing prices are not determined by supply and demand because you do not have a choice about needing to be housed. Allow an unregulated market to develop when social housing is also being cut and there is no choice not to buy what is on offer, other than sleeping on the streets.

Prices will go sky-high. The purchase prices for mortgage borrowers also rise to astronomical levels as first-time buyers are competing with landlords to buy properties, and so have to be able to **secure a mortgage equal to the amount a landlords can wring out of people desperate for a home.**

In the **first blog in this series** on affordable housing published by **Taxpayers Against Poverty**, Stephen Hill, director of C2O Futureplanners, explained: “There are over one million less affordable homes than there were in 1980. The population has grown by nearly nine million people. Incomes at the median level are flat, and secure employment is increasingly scarce.” He is correct, but the situation is even worse than that — it is not lack of housing that is the problem. Each annual census in the UK records the amount of housing that exists at each point in time. It does this by recording the number of rooms in homes, rooms over a certain size. The number of such rooms per person has risen at every census since 1981.

The 2011 census was the first to count bedrooms and found that in England and Wales there were 66 million for a population of 55 million (21 million of whom were married or in a civil partnership). So even if we make the ludicrous assumption that only married people share a bed and no children use bunk-beds, there were at least 22 million bedrooms empty on census night 2011. We have not been building a huge number of new houses or flats in recent years, but we have been adding extensions on to our existing homes and so we now have more housing than we have ever had before, per person and per family. We just share it out more unfairly than we have ever done before.

If housing prices were about supply and demand then our surplus of bedrooms would result in falling prices, but this is not a free market. You are not free to buy a flat that has been left empty in London to appreciate in value by its owner. They do not want to sell, or sometimes even rent it out, and you almost certainly would not have the money even if they did.

It is in the housing market that the majority of investments are made in the UK, housing is where most wealth is held. As we become more and more economically unequal it is through housing that we most clearly see that most of us are losers while just a few (who own multiple properties) are winners. Recent UK governments have been allowing wealth and income inequalities to rise and rise.

As **Fred Harrison** explained in the second blog in this series, government has not only withdrawn from regulating housing rents and profits to avoid this winner-takes-all-economics — it is now even prepared to provide £2bn to buy properties that home builders can't sell so that they don't need to lower prices even if landlords and first-time buyers will not buy their properties. The government sees renting-seeking as a social good, and believes that the market in housing should be regulated less and less with each year that passes, other than intervening to keep prices high and rising. Meanwhile, street homelessness rises, evictions rise, the debt of mortgage holders rises, housing prices rise and a small minority of the population become richer. So how will it end?

You might have thought that prices would stop rising when landlords stopped buying properties because the return on their investments in terms of rent would not making it worth their while paying, say, one million pounds for a

three-bed house in a part of London near a tube station. Suppose that the most a family could pay was £20,000 a year in rent. The landlord's "return" on their investment would only be two per cent a year, ignoring wear-and tear and anything else that they might be able to off-set against paying tax. If the forces that were actually at play were "supply and demand" then surely prices have to stop rising when people can no longer afford the rents?

However, landlords have another return: the escalating value of the property itself. If the property is rising by five per cent a year in value then they are making a seven per cent return when they rent it out, even if annual rents are just two per cent of its value. The rise of five per cent a year is due to speculation which is itself partly fed by a belief that the government of the day will do all it can to protect their investments, but it will only do that up to a certain point.

Because it needs to raise taxes a little given the state of the national finances, the UK government is now withdrawing its support of reckless profit taking by smaller landlords. In October 2016 a group **of buy-to-let landlords lost their appeal in the courts** to try to continue to be able to claim their mortgage interest payments as a business expense. From 2017 only the largest of landlords who set up companies to rent out their properties will be able to continue to do that.

The government knows that the housing market is in trouble. That is why Philip Hammond, the current Chancellor, announced that their "Help to Buy" scheme (which was aimed at the very best-off of potential first time buyers) will end in December 2016. The government knows that with the risk of falling house prices in future it cannot afford the guarantees that "Help to Buy" created.

“Help to Buy” schemes were the previous Chancellor George Osborne’s biggest spending commitment. They were designed to help inflate the housing market and keep prices rising, but eventually every speculative bubble has to burst.

On 21 September the first reports of a stalling market were released under headlines that included: “Q2 UK house sales at an all-time quarterly low says **Land Registry**”. UK Land Registry figures now show housing prices to have fallen in London by 7% so far in 2016, with the number of sales roughly halving. Investors have stopped buying; if a recent investor wants to sell they have to do so at a loss. Nationally prices fell by 4.5%.

So what happened to the magic-money-tree? In short the pound fell in value and it has been continuing to fall ever since the UK voted to leave the EU. There was always going to be “the event” that triggered the end of speculation and it is looking more and more likely as if Brexit was that event. Once the pound begins to fall in value then any overseas investor knows that if they buy property in the UK, even if its value in pounds does not fall, it will be worth less to them in future.

Suddenly UK housing is not a safe asset. Suddenly prospective landlords actually have to try to rely on their tenants’ rent to pay back their borrowings. Suddenly housing prices change despite no great alteration in supply or demand. Suddenly the whole edifice looks unsafe, not just for the majority of young and almost all poor people in Britain, but for the large majority of the population.

It was never “supply and demand” that determined our housing costs and profits. Relying on that belief did not

result in greatly improved cheaper housing for most people, but it was easy to claim that somehow tomorrow would be better if we just left it to the market — until we left it to the ever more unregulated market for too long.

Housing costs, prices and supply are determined by governments, including those that shirk their responsibilities and have too much concern for the economic fortunes of the affluent few.

This is part of a series of blogs on affordable housing published by Taxpayers Against Poverty. You can read others in the series on their website

<http://taxpayersagainstopoverty.org.uk/>

Original title: regulated private renting a social good without rent regulation a social evil, first published here:

<http://taxpayersagainstopoverty.org.uk/news/tap-affordable-housing-campaign-blog-3-well-regulated-private-renting-is-a->