

Market Commentary

Residential Analysts

United Kingdom – May 2024

- **The Politics of Housing**
- **Let's Talk About Tax (in July)**

Housing has risen up the political agenda since 2010. The rise reflects both the growing public recognition of the housing crisis and politicians increasingly using it as a tool to help win votes. However, for many the situation is now worse than in 2010 and a fractious government has driven their usual industry allies towards other parties.

The Politics of Housing

It was during the 2010 coalition government that we started to see an increasing public recognition of the problems with housing (Fig 1) and the politicisation of it. Housing stories in the press leapt from the middle pages and supplements to front page news as even baby boomers began to see the impact with their children struggling to buy.

The Conservative party also actively engaged with housing as a policy tool. Their approach could be characterised as trying to solve a crisis in homeownership while Nick Clegg is reported as saying “They genuinely saw housing as a Petri dish for voters”. The Cameron/Osborne era policies focussed on squeezing the social rented sector as it was seen as creating Labour voters while trying to increase home ownership via policies such as Help to Buy and the non-starting Starter Homes.

The private rented sector was not immune, despite the political bias of landlords, with increased regulation and taxation aiming to squeeze them out of the market to the benefit of first-time buyers. This approach worked and the result was a sizable shift in the net housing supply from the private rented sector to homeownership (Fig 2).

This fixation on homeownership is not surprising given the importance of homeowners’ votes in winning elections. The political focus on homeownership may have eased following the EU referendum in 2016 as the political message shifted to “supply”. But, as our rough analysis of votes by tenure in the 2019 General Election shows (Fig 3), winning over homeowners is a priority for any major party seeking a win.

Over the last 18 months, the fractious nature of the Conservative party has been reflected in its housing policies. Help for leaseholders and renters was met by pushback while homeowners have struggled with rising mortgage rates. Meanwhile, changes to housing targets and responses to issues such as nutrient neutrality have led housebuilders to focus on life under Labour.

Fig 1: Issues Facing Britain: Housing

Source: Ipsos Issues Index

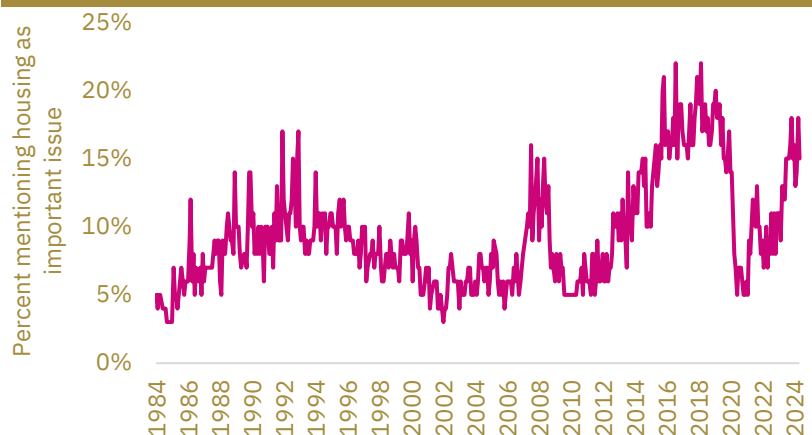


Fig 2: Net Supply by Tenure, England

Source: DLUHC

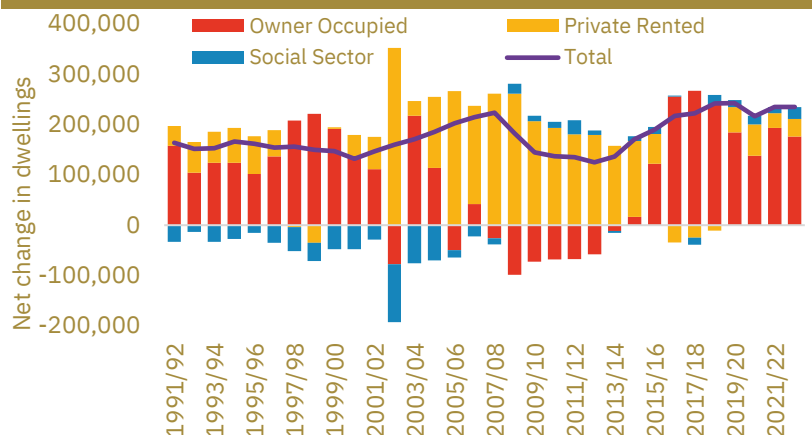
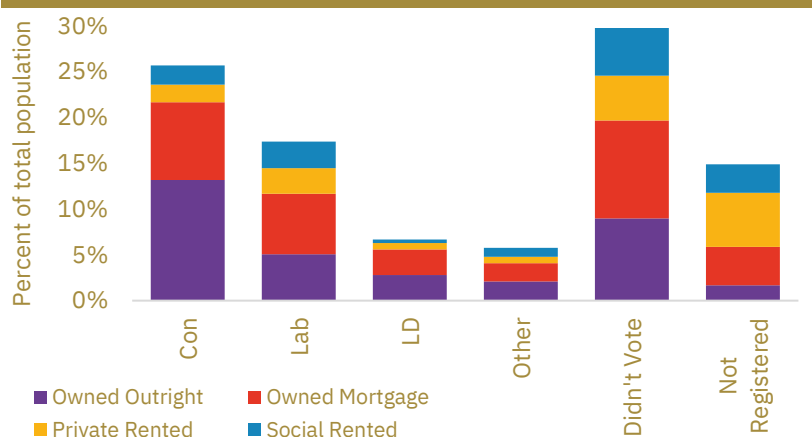


Fig 3: 2019 General Election Votes by Tenure

Source: Ipsos, Electoral Commission, ONS LFS

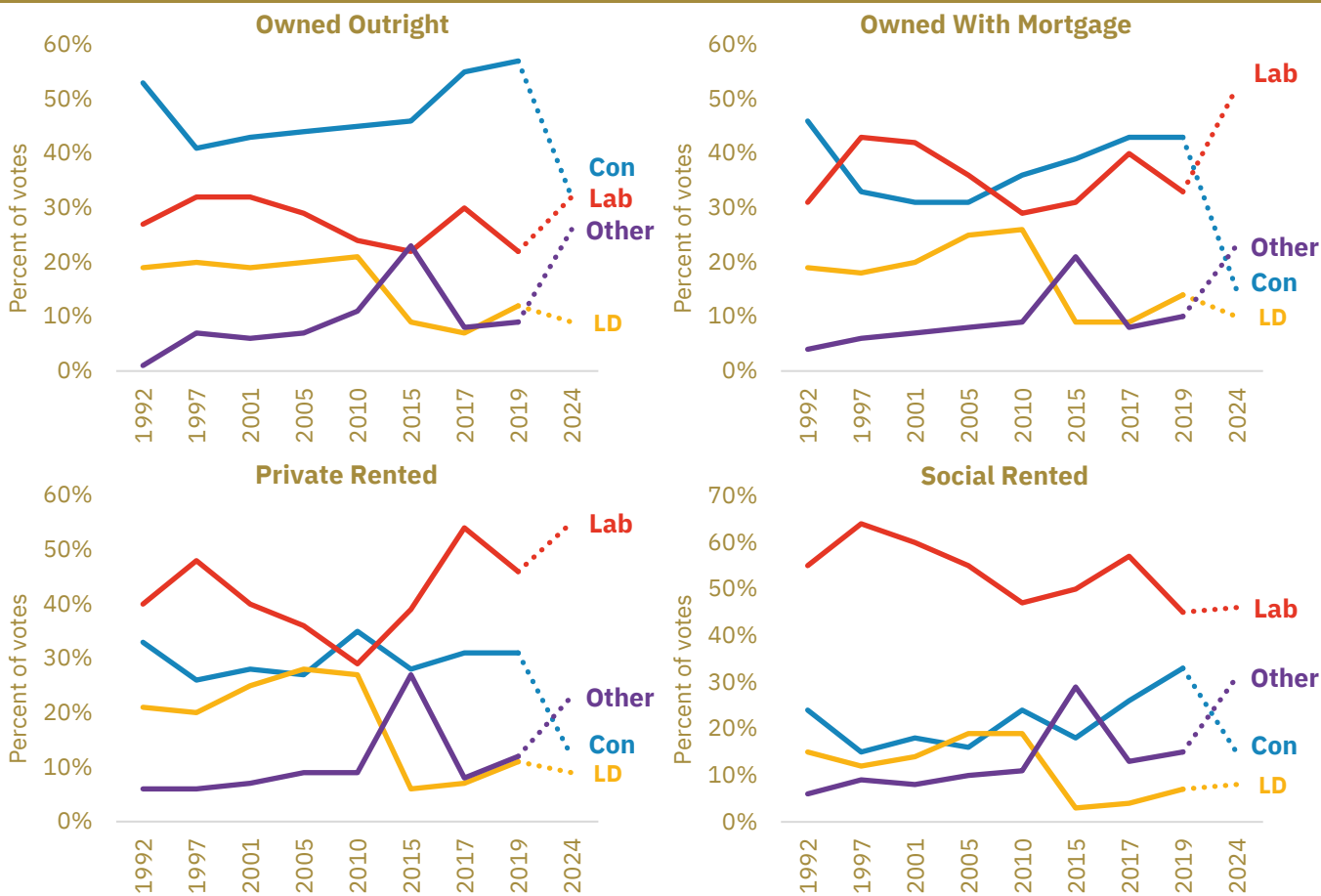


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Given public preferences and political necessity, both major parties' messages on housing this election will probably focus on homeownership. As Fig 4 shows, the majority party voted for by mortgaged homeowners has matched the overall result since at least the 1992 election, though polling by YouGov suggests the Conservatives could even lose amongst those who own outright this year. Despite falls in homeownership since the financial crisis, it is still home to most people in this country by some distance. Therefore, homeownership will be a priority for Labour but hopefully supported by a more balanced approach to housing policy than we've seen since 2010.

Fig 4: General Election Votes by Tenure

Source: Ipsos How Britain voted, YouGov 3-21 May 2024



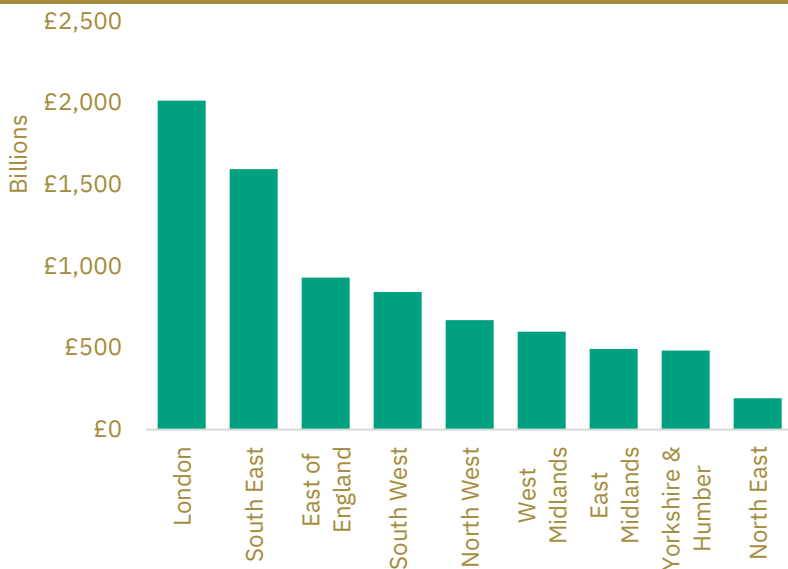
Let's Talk About Tax (in July)

There is a clear need for increased spending in the public sector and taxes will have to rise to cover this. Despite the economic reality, the Conservatives have pledged to not increase property taxation in an attempt to trap Labour.

This is unfortunate as residential property taxation is in desperate need of reform. Stamp duty land tax is a stupid tax that is a barrier to transactions and leads to the inefficient use of housing while council tax can be incredibly unfair and is based on valuations from 1991 in England. Any sensible debate is likely to be put off until the election is over but the estimated £8 trillion value of the privately owned housing stock in England, most of which is in London and the south, must be a tempting target for any reform of property tax.

Fig 5: Value of Private Housing Stock, March 2023

Source: Estimated using DLUHC stock & HMRC SDLT data

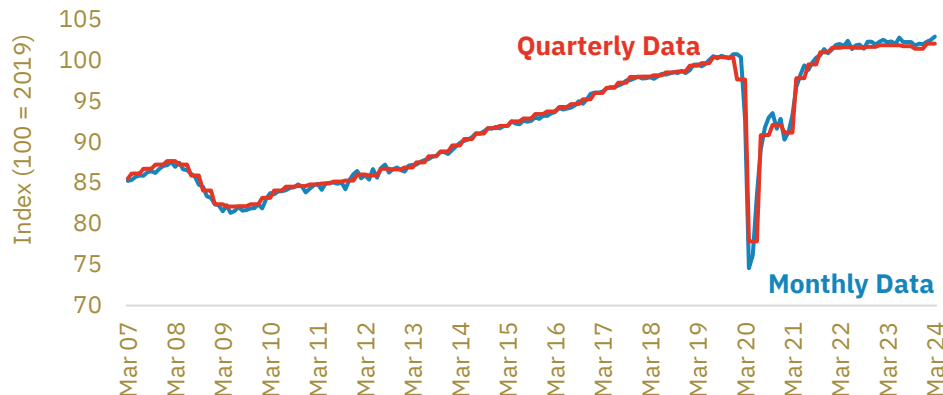


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Market At A Glance

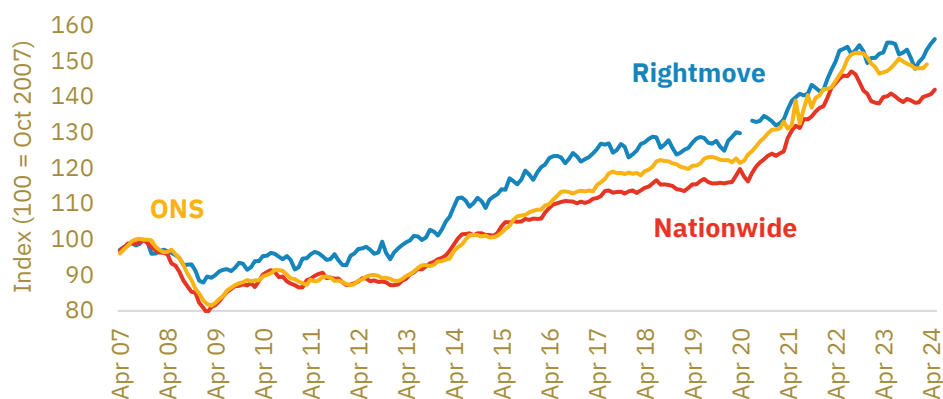
Economy – UK

The ONS estimated monthly GDP rose 0.7% in the year to March 2024. Monthly GDP was 2.1% above the pre-pandemic peak recorded in January 2020. However, this monthly data will continue to be revised in the future.



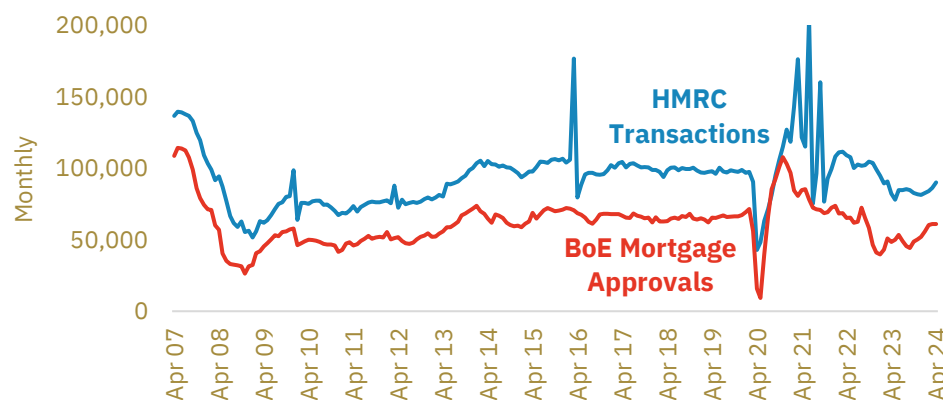
House Prices – UK

Rightmove reported a 0.6% annual rise in asking house prices in May 2024 while Nationwide reported a 1.3% annual rise in their mortgage approval-based index over the same period. Meanwhile, the ONS reported a 1.8% annual rise in its sales agreed index for the year to March 2024.



Transactions – UK

HMRC provisionally reported 90,400 residential transactions in April. This was just 8% lower than the same month in 2019. Meanwhile, the Bank of England reported mortgage approvals for house purchase were 7% lower in April 2024 than the same month in 2019.



New Supply – England

The latest net additions data for 2022/23 reported 234,400 net new homes in England with 212,600 new build completions. The latest quarterly house-building data suggests there were 193,000 completions in the year to Q4 2023 while there were 232,500 new build Energy Performance Certificates in the year to Q1 2024 – a leading indicator for net housing supply.

