Fuelling pauperism: How the Coalition Government's lavish spending on housing benefit and helping private landlords is making housing less affordable for us all.

Len Gibbs – October 2014

Summary

In an age of austerity the Coalition Government has chosen to spend an unprecedented amount of cash on housing[1]. From the subsidisation of credit through quantitative easing, underwriting mortgages, providing credits to private landlords, right to buy discounts, tax breaks to housing benefit, we are witnessing a cash bonanza for those who own properties. The effect of this huge expenditure is to increase the cost of housing, create further demands for government spending to subsidise high rents and high house prices and encourage fraud and gaming behaviour amongst those who are able to use this system(NAO, 2014).

In 2011 the then housing minister, Grant Shapps, made the following statement in an interview with the Guardian[2],

"I think it is horrendous that a first-time buyer would need to be 36 on average if they do not have the support of mum and dad. The main thing everyone requires for their subsistence is a roof over their head and when that basic human need becomes too expensive for average citizens to afford, something is out of kilter. I think the answer is house-price stability. We had this crazy period from 1997 to 2007 when house prices almost tripled, which is fine if you have a house. This government absolutely supports peoples' aspiration to own a home. But we also believe that [property] should be primarily thought of as a place to be your home."

By 2014 Britain had experienced yet another boom in house prices and a sharp fall in owner occupation. Between 2010 and 2012, the number of owner occupied houses fell by 426,000 whilst 429,000 were added to the stock of privately rented houses. Since 2010 average house prices have risen by 5.5% nationally (Land Registry) and the national housing benefit bill has risen from £19.9 billion in 2010 to £23.9 billion by 2013/14. The Government has also committed £24 billion to stimulating the owner occupied and private housing market. Around 2 million of the country's 3.9 million privately rented houses are owned by non-domiciles, with the HMRC estimating a tax loss of around £550 million.

Once again mortgage lenders are increasing the proportion of loans to buy-to-let landlords and still offering interest only mortgages for almost 90% of the purchases. Owner occupation is falling at a rate of around 1% per year with Britain's poorest places recording some of the steepest drops as the private landlords move in. On average 33% of private tenants claim housing benefit but in many local authorities the figure is over 50%, in Blackpool 80% of tenants claim housing benefit. In many of England's poorer local authorities almost one in three households are on housing benefit. In 97 local authority areas the private rented sector doubled in size between 2001 and 2011.

Despite the unprecedented growth of private renting and the concurrent rises in housing benefit spending the Government is spending £4.5 billion supporting the private rented sector. Despite the evidence that almost a third of ex-right to buy properties become private rented at much higher rents than social housing (Copley, 2014) the Government has increased discounts to incentivise the disposal of social housing.

It appears that the Government is unaware of the consequences of its policies for the public purse. Using evidence published by the Government (on the DWP, Treasury and CLG websites) I have

[1] A collation of government housing related expenditure is available in (Wilson, 2014a). The data required tabulation and I estimate expenditure is around £24 billion.
[2] http://www.theguardian.com/society/2011/jan/01/minister-end-housing-price-rollercoaster

identified a "black hole" of up to £5 billion in the Treasury's estimates for housing benefit expenditure. It appears that the Government has failed to consider the continued growth of private renting and the resultant increases in housing benefit expenditure. It also appears that it has not factored in above inflation increases in social housing rents and rental inflation generally. There appears to be no recognition at all of the additional private rented units that should be created by its £3.5 billion stimulus package.

The incentives for the well off to buy and let out properties are such that first time buyers and the less well-off are being squeezed out of owner occupation. In Britain housing is a tradable commodity, creating profits through house price appreciation (with the help of policies such as Help To Buy and low interest rates) and through rental streams which are effectively underwritten by housing benefit. The Government's housing policies are turning Britain into a nation of those who have bought and can buy more and those who must rent. The government is using its revenues to create a gold rush for rentiers and making an ever higher proportion of people dependent upon benefits to pay for private profits.

Introduction

Remember those magic words, "property owning democracy", associated with the Conservative Party since the 1920s and popularised by Margaret Thatcher in her first term of office. Between 1980 and 2006 we saw the dream coming true. The proportion of households who were owner occupiers grew from 55% to 69% in that period, fuelled by cheap mortgages, the Right To Buy, deregulation of the financial sector and the expectation of ever increasing property appreciation. House prices have become a national obsession pampered by swathes of TV shows, newspaper articles and media coverage. As we sit back and watch house prices spiral in the South East (source: http://www.ons.gov.uk/ons/dcp171778_366591.pdf) whilst wage growth remains flat, we can only wonder at this miracle of wealth accumulation; to earn more in a week through the price appreciation of your house than going out to work, to cash it in tax free and buy a villa in Spain. But what about the leftover cash? Well Buy to Let is all the rage now so why not buy a smaller house and rent it out, more tax free revenue to pay for Sangria and cigs at the villa?

The reality is very different to the post-war dream. We are witnessing the decline of owner occupation, a period of gross and obscene taxpayer subsidies for private profit and spiralling government expenditure on housing without any significant affordable housing to show for it. If we bother to unpick Britain's housing subsidy system it's easy to see how the Austerity agenda is carefully managed to demonise the poor whilst generating unprecedented wealth for the rich.

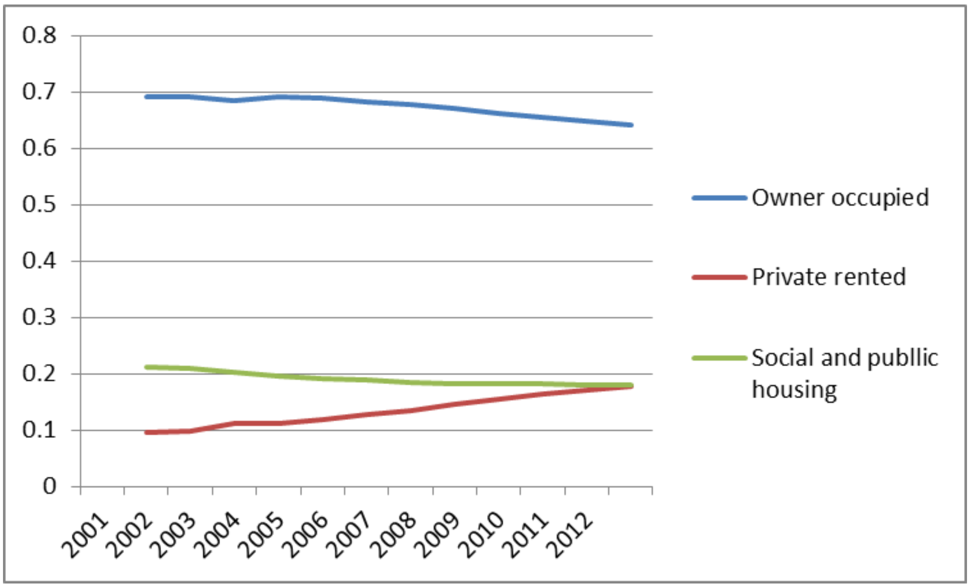
But it's worse than that. The government's continued interventions in housing market mechanisms have contributed to a gold rush of speculators seeking profits from buy to let. Expectations of ever increasing house prices (and a selective amnesia around market collapses) and untaxed incomes guaranteed through housing benefit have encouraged armies of accidental landlords and foreign investors to purchase and rent out properties, especially in deprived areas. But when we model the returns and factor in all costs and risks, the large yields promised by newspapers and journals evaporate. Many landlords have discovered that housing is a perilous game and that house prices can only defy gravity for so long. Worse still the invasion of buy to let investors is creating unstable communities; transitory, unloved and unkempt zones of speculation. It's a situation which benefits the few at the expense of the many: diverting funds which could be invested in productive capacity and diminishing the stewardship of our housing stock. British housing policy is casino capitalism underwritten by a coalition of spendthrift speculators with a mission to immerse the state in property bubbles; it is fraught with internal contradictions as it battles to save money whilst creating further demands for subsidy.

What's happening to tenure in Britain?

The rise and fall owner occupation

In 2000 owner occupation had reached a peak of 69% in Great Britain (having grown from 55% in 1979. By 2012, the figure had fallen to 64%. As owner occupation shrunk so too did social renting, from a peak of 33% in 1979 to its nadir of 18% by 2012. Over the same period private renting bottomed at 9% in 1986 and has risen to its current peak of 18% in 2012. In numerical terms this has involved the private rented sector growing from a low point of 1.9m dwellings in 1986 to a peak of 4.8m by 2012[3]. The graph below highlights the change trend:

Graph 1 – Tenure trends for Great Britain since 2001



Source: CLG website, table LT102

The resistible rise of private renting

Private renting has grown by an average of 6.1% per year since 2001, adding an average of 193,000 additional privately rented dwellings per year. In the social housing sector there has been far less growth and it is likely that sales through the right to buy will offset any increases through new-build or acquisitions. If we take the government's expenditure planning horizon and use the 6.1% average annual increase by 2018 the private rented sector could contain almost seven million dwellings, an addition of over two million homes over the seven year period[4]. The Consulting Group IMLA take an even more optimistic view about the long term growth of private renting, estimating that by 2032 there will be 11.7 million dwellings in the private rented sector, around 35% of all homes.

[3] Table 1 at the appendix contains detailed statistics.
[4] The detailed table is contained at the appendix.

Why is owner occupation declining and private renting booming?

The decline of owner occupation and the rise of private renting are closely correlated; in fact the increases in the proportion of private renting are demonstrably about owner occupied housing being resold into private renting. [5]

Several studies have attempted to explain these tenure changes ("1.5m Britons turn to buy-to-let investing - Telegraph," n.d., "Private rental surge hits benefits bill - FT.com," n.d., "What hope is there for Generation Rent when a third of MPs are buy-to-let landlords?," n.d.; Crook & Kemp, 2014; Leyshon & French, 2009; Pryce & Sprigings, 2009; Scanlon & Kochan, 2011; Sprigings, 2013). Factors cited to explain the decline of owner occupation include:

Demand side

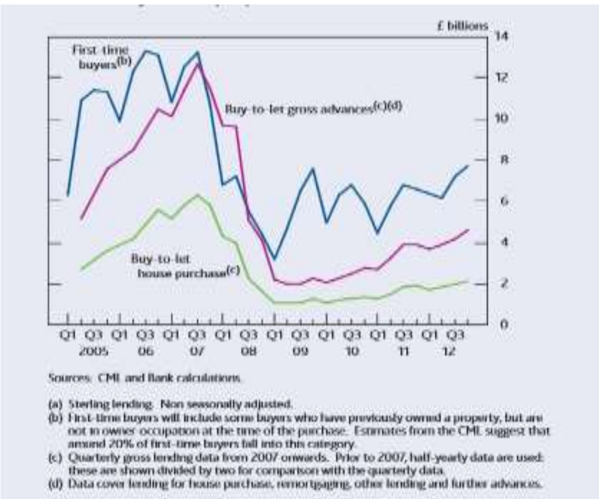
Several commentators and theorists argue that there are structural factors explaining the decline in demand for owner occupation and rise in demand for renting . Factors such as changes in the labour market are often cited; the increase in short term contracts, low paid insecure employment, slow or static wage growth, part time working and self-employment. Also people are entering the labour market at a later age as more young people take degrees.[6] In addition, the large increase in inward migration recorded since 2000 has increased the pool of low paid people with poor credit ratings.

The practises of lenders

Before 2007 it was relatively easy to access mortgage finance and many questionable products were available including 120% mortgages, no deposit mortgages, self-certification, interest only mortgages and increased ratios of borrowings to earnings (Rolnik, 2013; Schwartz & Seabrooke, 2009). After the crash practices were tightened up and deposits for first time buyers now average 27% of the purchase price.
(http://www.lslps.co.uk/documents/First_time_buyer_tracker_feb14.pdf).

The graph below shows the patterns in terms of loan activity to First Time Buyers (FTBs) and Buy to Lets (BTLs).

Graph 2 – Trends in lending April 2013



(Source: http://www.bankofengland.co.uk/publications/Documents/other/monetary/trendsapril13.pdf)

[5] My own research of all English local authorities outside London shows a very strong correlation.

[6] According to HESA figures (https://www.hesa.ac.uk/content/view/1973/239/) the total number of full-time undergraduates has risen from 972,000 in 1995/96 to 1,385,000 by 2012/13. Total overseas students (full and part time, including postgraduates) rose from 195,000 to 430,000 in the same period. A walk around any major University city shows the impacts on the housing stock of this huge growth in numbers. The recent NAO report on student loans also indicates that almost 50% of the loans will never be collected, thus taxpayers are again paying for rents in the private sector.

Mortgage lending on buy-to-let has also recovered from its post-2007 nadir of 5.43% of all mortgages in 2009 to a current post-crash boom of 12.79%. What is interesting to note is that the private rented sector continued its pattern of expansion as buy-to-let lending collapsed. The biggest hike in private renting occurred in 2007/08 when 291,000 dwellings were added to the private rented sector and buy to let mortgages averaged 11% of mortgage activity – this coincided with a £912 million hike in the housing benefit bill. The next biggest spike in the housing benefit bill occurred in 2009/10 when the bill went up by £2.9 billion and 288,000 dwellings were added to private renting. However, in that year buy to let mortgages only accounted for around 6% of mortgage approvals. We can therefore conclude that access to buy-to-let funding is helpful for the growth of private renting but by no means essential. It is also important to note that the restrictions upon loan ratios, deposits and interest only mortgages are not being applied to buy to let mortgages (source Radio 4 bricks and bubbles documentary August 2014, http://www.bbc.co.uk/programmes/b04c9gsg).

Perceptions

Pick up any newspaper in the UK and there will be stories about rising house prices, the affordability crisis and the need for more houses. A glance through the TV schedules will provide ample opportunity to work out an investment strategy (A place in the sun; The Home Show; Property Ladder; Homes Under the Hammer; House Doctor; Location, location, location etc.) and a pub or dinner table conversation is often inclined to celebrate and bemoan Britain's resurgent housing market. Many surveys record aspirations to home ownership and beliefs in the safety of "bricks and mortar" investments, despite housing booms and crashes. In August 2014 it was widely reported that house prices in London had risen by almost 20% in one year, but the huge decline in the numbers of transactions was largely left alone.

Perversely, this coverage and many other wider structural and global factors could be helping to fuel the boom in buy to let and reduce owner occupation. For those who can easily access mortgage finance or don't need a mortgage buying a second or third home as a rental property means additional income streams and the prospect of capital appreciation. Traditionally the proportion of first time buyers has been essential to the housing market but now they account for less than 20% of buyers. This may explain the recent phenomenon of the huge disconnect between house values and incomes. Lack of confidence in pension funds and the simplicity of housing as an investment may also be contributing to the rise of the small scale landlord[7]. An increase in population of around 250,000 per year through inward migration helps generate demand and guarantee lettings.

Global factors

It is not only the UK that has witnessed huge growth in private rentals and a decline in owner occupation. The USA, Ireland, Iceland and Slovenia have all seen marked decline in the level of owner occupation. These same countries saw some of the highest rates of increase in prices during the boom years. Within the UK we can identify two large global influences at work. Firstly, the growth in population through inward migration has generated a need for over 100,000 homes per year and many new immigrants have no choice but to enter private renting. Secondly, the role of foreign buyers in the London market is well publicised but perhaps not so well understood in terms of their role outside the capital.

In February 2014 Civitas (Finding Shelter, 2014) complied a variety of data, concluding that, "The UK property market is being used as an investment vehicle by the global super rich – and increasingly the simply well to do" (Civitas, 2014). The report quoted a variety of property experts (including Savills, Jones Lang LaSalle and Knight Frank) who all produced evidence of the effects of foreign purchasing: £7bn of international money spent on high end London properties in 2013; only 27% of

[7] PPP research 2014, found that 50% of BTL owners it surveyed considered BTL income as a retirement income with 42% of these planning to sell the property on retirement.

new homes in London going to UK buyers; predictions that foreign buyers will spend £5 billion on new-build London homes in 2014.

Whilst Civitas focused on the London market in late 2013 the accountancy consulting group, UCY Hacker Young published a report examining the impact of foreign purchasing of UK properties. The table below shows the huge impact of non-UK resident ownership of rental properties alone: The table suggests that almost half the buy to let properties in the UK are owned by non-domiciles.

Table 4 – Increase in non-resident ownership of rental properties

Tax year	Number	Increase	Increase %
2006-07	1,460,000		
2007-08	1,580,000	120,000	8%
2008-09	1,700,000	120,000	8%
2009-10	1,820,000	120,000	7%
2010-11	1,930,000	110,000	6%

Source: http://webarchive.nationalarchives.gov.uk/+/http://www.hmrc.gov.uk/freedom/nrl-stats-0607-1011.htm

Government subsidies and policies

All governments have continued to subsidise aspects of the housing market throughout the period since 1914. The emphasis between capital and revenue, personal and building, universal and targeted and between tenures has changed but the underlying pattern of subsidising the consumption of housing has remained. We also need to recognise the visibility of subsidies in helping to define their importance politically. Thus, housing benefit and capital grants are very visible forming a large part of the government's budget whereas the lack of VAT on newbuild, lack of capital gains tax on the profits of housing ownership and quantitative easing are much more opaque.

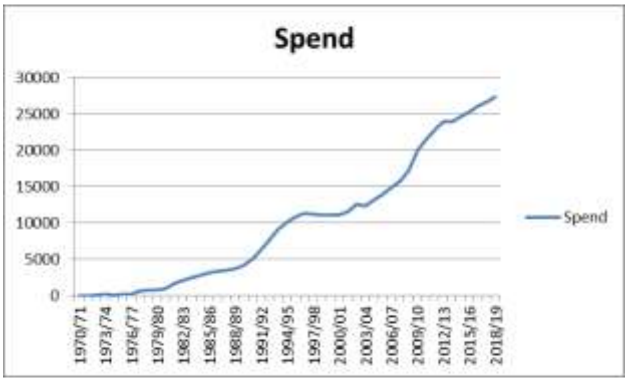
The key tax break for owner occupation is the lack of capital gains tax at the point of sale. More recently the government has introduced mortgage guarantees and various financial incentives to encourage house builders. However, the tax advantages and income security of buying for rental are substantial. Favourable tax breaks for private landlords include:

- £5 billion in tax relief per year – for business expenses, including the 10% "wear and tear" allowance and interest relief on mortgages.
- Landlords can avoid paying capital gains tax (CGT) on the final 3 years when they own a property as long as they have occupied it as their main residence at some point. The first £11,000 (£22,000 for a married couple) is also tax exempt.
- Landlords are able to claim tax relief against their costs as if they are running businesses, yet HMRC classifies rent as "unearned income.
- The rent a room scheme allows landlords to earn up to £4,250 per year tax free if they let a room in their own dwelling (https://www.gov.uk/renting-out-a-property/paying-tax).

As well as the legitimate means of avoiding tax Her Majesty's Revenue and Customs (HMRC) estimates that at least £550 million tax is uncollected each year. Source: http://www.exaronews.com/articles/4698/landlords-evade-quarter-of-tax-on-rental-income-figures-reveal

The key change over the period of analysis has been the erosion of capital subsidies and switch to personal subsidies. Stephens et al (2005) suggest that this has switched from an 80% supply subsidy in 1975 to an 85% demand subsidy by 2000. A key source of additional spending has been on housing benefits; from £1.1bn 1970/71 to £22bn 2010/11 (Cooke & Davies, 2014); Between 08/09 and 10/11 housing benefit bill rose by £4.5bn (IPPR) and one third of PRS receiving housing benefit – (IPPR). Whitehead et al writing in 2005, argue that, "…housing benefit has underpinned some of the major shifts in housing policy over the past 25 years". The graph below records the trends in housing benefit spending:

Graph 3 – Housing Benefit expenditure



Source: DWP

Where is the housing benefit bill going?

Using DWP data I have set out below the government's predictions of housing benefit growth.

Table 5 – Predicted growth in housing benefit expenditure (UK)

Year	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Spend	13157.6	13928.2	14840.5	15731.8	17103.4	19989.2	21427	22820.3	23893	23907.1	24578.9	25290	26064	26618	27363
Change		771	912	891	1372	2886	1438	1393	1073	14	672	711	774	554	745
%		6%	7%	6%	9%	17%	7%	7%	5%	0%	3%	3%	3%	2%	3%

Source: https://www.gov.uk/government/.../outturn-and-forecast-budget-2014.xls author's amendments.

The estimates indicate that the government considers that housing benefit spending will rise by £3.5 billion (14.6%) from 2013/14 to 2018/19. Although I have not yet been able to trace the methods by which this estimate was obtained, it should consist of two components – firstly, the projected growth in the numbers of rented properties receiving housing benefit and secondly a factor for inflation.

Projecting the effects of growth of private renting

If we examine trends in housing benefits the potential linkages between private renting and housing benefit begin to become clear. Thus the table below illustrates the growth in private rental housing benefit claimants:

Table 6 –The growth of housing benefit in private renting

Year	Private Sector Caseload (000's)	Private Sector Expenditure (£ billion)	Average Private Sector Eligible Rent (£ per week)		Real terms growth in average Private Sector Eligible Rent[2]		Impact on Housing Benefit expenditure (£ billion)	
			Nominal Terms	Real Terms (2013/14 prices)	Since 2000/01	Since Previous year	Since 2000/01[3]	Since Previous year[4]
2000/01	771	2.85	68.28	91.70	0%	-	0.0	-
2001/02	727	2.82	71.95	94.82	3%	3%	0.1	0.1
2002/03	711	3.03	76.03	97.75	7%	3%	0.2	0.1
2003/04	722	3.03	78.73	99.03	8%	1%	0.2	0.0
2004/05	777	3.35	85.17	104.06	13%	5%	0.4	0.2
2005/06	817	3.72	92.48	110.47	20%	6%	0.7	0.2
2006/07	868	4.28	98.64	114.75	25%	4%	0.9	0.2
2007/08	934	4.70	104.00	118.04	29%	3%	1.1	0.1
2008/09	1,049	5.62	112.50	124.30	36%	5%	1.6	0.3
2009/10	1,320	7.57	122.00	132.80	45%	7%	2.5	0.5
2010/11	1,492	8.67	125.88	133.23	45%	0%	2.9	0.0
2011/12	1,586	9.22	127.33	131.95	44%	-1%	3.1	-0.1
2012/13[1]	1,667	9.27	125.83	128.73	40%	-2%	3.0	-0.3
2013/14[1]	1,704	9.32	127.40	127.40	39%	-1%	3.2	-0.1

Source: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/259176/impact-of-rent-growth-on-housing-benefit-expenditure.pdf

Between 2000/01 and 2012/13 the number of private tenants in receipt of housing benefit rose by 896,000 whilst expenditure has risen by £6.42 billion annually – a rate of increase of £583 million per year. Key advisors to the property market (including Savills, the IMLA and Paragon) are forecasting further growth of buy to let investors and hence the government's forecasts around housing benefit growth seem wildly conservative. The table amply illustrates the role of the private rented sector in driving up housing benefit expenditure. It is also illuminating to note that Savills (2013) predict that rents will grow by 21% over the five years from 2013 to 2018 – again much higher than the growth forecast of the Treasury.

If we cross reference to the projected growth of the private rented sector and the DWP's figures relating to the proportion of private tenants receiving housing benefit we can start to estimate the effects on the housing benefit bill. According to Government estimates in December 2012 there were 9.676m tenants in the UK, 4.8m of which were private and 4.9m social tenants claiming housing benefit. This equates (by cross referencing to the housing benefit claimant figures) to 33.6% of all private tenants and 68.5% of all social housing tenants. In 2009 the figures were 28.6% and 64.8% respectively. The table below gives the growth pattern for the last five years.

Table 7 – Housing benefit claimants by tenure

Housing Benefit claimants by tenure: January 2009 to January 2014								
	All HB claimants	Social	% of all	Private	% of all	Annual growth Social	Rented	All
2009	**4,252,251**	3,138,379	74%	1,108,589	26%			
2010	**4,651,106**	3,261,666	70%	1,386,507	30%	2.9%	25.1%	9.4%
2011	**4,833,467**	3,308,896	68%	1,521,975	31%	1.0%	9.8%	3.9%
2012	**4,976,217**	3,359,946	68%	1,613,192	32%	1.1%	6.0%	3.0%
2013	**5,070,291**	3,398,454	67%	1,667,923	33%	0.8%	3.4%	1.9%
2014	**5,001,958**	3,341,707	67%	1,657,967	33%	-1.1%	-0.6%	-1.3%

Source: https://www.gov.uk/government/publications/number-of-housing-benefit-claimants-and-average-weekly-spare-room-subsidy-amount-withdrawal

We can therefore estimate that for every 100,000 extra private rented dwellings there will be 34,000 new housing benefit claimants. The average award per week is £106.80 which equates to £5,553 per year (Source DWP). So each additional 100,000 private rented unit is likely to create an extra £186m in housing benefit expenditure. Table 2 earlier predicted the likely pattern of growth in the private rented sector and the table is now amended to include for the potential housing benefit effects. The current patterns of growth indicate that there will be an additional 688,000 private rented tenancies on housing benefit by 2018-19 at a cost of around £3.8 billion per year. The table below indicates the possible growth trajectory. The table below indicates how this could affect the private housing benefit bill.

Table 8 – Projected increase in housing benefit expenditure through the increase in private renting

	Private rented	Increase in private renting	Additional HB claimants	Additional HB amount	Cumulative	Overall effect - £'000
2012	4,799					8,956,889,000
2013	5,092	293	98	542,260,356	542,260,356	9,499,149,356
2014	5,402	311	104	575,338,238	1,117,598,594	10,074,487,594
2015	5,732	330	111	610,433,870	1,728,032,464	10,684,921,464
2016	6,082	350	117	647,670,336	2,375,702,800	11,332,591,800
2017	6,452	371	125	687,178,227	3,062,881,027	12,019,770,027
2018	6,846	394	132	729,096,099	3,791,977,125	12,748,866,125
Total		2,047	688	3,791,977,125		

Source: Author's own projections from government data

Factoring in for inflation

Data on the patterns of rental growth in the private rented sector are available from a number of sources. Savills (a major residential real estate agency and consultancy) predict that rents will rise by 21% between 2014 and 2018 (source: http://pdf.euro.savills.co.uk/residential---other/spotlight-prime-rental-market.pdf), whilst Hampton International estimate a 16% increase.
(Source: http://www.hamptons.co.uk/media/118978/cod1012-forecastreport-a4-web-singles.pdf).

The HM Treasury estimates for inflation (as at August 2014) are as follows:

Table 9 – HM Treasury inflationary estimates

	2014	2015	2016	2017	2018
CPI	1.7%	2.0%	2.1%	2.1%	2.1%
RPI	2.4%	3.1%	3.5%	3.4%	3.5%

Source: HM Treasury Forecasts for the UK Economy, No. 328
(https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/345687/201408forecomp.pdf)

However, there are strong countervailing forces at work which may restrict rental growth. Evidence is emerging that the growth in rents is failing to keep up with inflation. Statistics published by the Valuation Office Agency show that between 2011 and 2014 in England the average growth in rents was just 4%. Liverpool for example recorded a 27% decrease in median private sector rents: Leicester, Scarborough, Wakefield, York, Hull and Derby all experienced price drops. In total 68 local authorities experienced no growth in rental values. There is thus a series of yawning chasms between the rhetoric and realities of housing markets; promoters of buy-to-let paint rosy pictures of above inflationary growth against a reality of rental decline outside London and the South East; Housing lobbyists such as the National Housing Federation talk of rocketing rents, despite the fact that their own reports contain the data showing decline; the Lyons Review uses discredited household forecasts contained within the Barker Review to promote mass housebuilding and the Government continues to offer huge financial incentives for private renting to grow. The author recently visited the websites of several local authorities to check housing demand as recorded by choice based lettings statistics, in many cases there was virtually no demand for certain house types and the plethora of "To Let" signs in Britain's cities and towns suggests signs of an oversupply problem.

The Government has also recently announced that housing benefit rises will be capped at 1% for the next two years (Wilson, 2013, 2014b) so landlords renting out to people on benefits will find it hard to increase rents above that level. Social landlords are being encouraged to raise rents at a rate of CPI plus 1% (source: http://www.insidehousing.co.uk/social-landlords-handed-new-formula-for-rents/6527499.article) and developing associations are required to raise relet rents up to 80% of market rents (source: file://fp/userfiles/lgibbs/Downloads/sn01090%20(2).pdf). So at least 60% of all housing benefit claimants will be entitled to rises in rents at above CPI levels. From 2014 onwards the increase in local housing allowance (the term given to private sector housing benefit claims) will be capped at 1%.

For the purposes of estimating I have taken the figure of 2% annually to account for the inflationary element of rising benefit expenditure. The table below calculates the effects of a growing private rented sector and inflation on housing benefit expenditure.

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Total 2013/14 to 2018/19
Government estimate							
Year	23,907	24,579	25,290	26,064	26,618	27,363	153,821
Spend	14	672	711	774	554	745	
Change	0	0	0	0	0	0	
%							
Additional growth in PRS from trends	542	575	610	647	687	729	
Total with PRS growth	24,449	25,024	25,634	26,281	26,968	27,697	
Inflation held at 2% to account for LHA cap	478	499	510	523	536	550	
Total	24,927	25,523	26,145	26,804	27,504	28,247	159,150
Difference	1,020	944	855	740	886	884	5,329

Source: Author's own interpretations of data HB growth.xls

The table shows that expenditure on housing benefit could be £5 billion higher than the government estimates by 2018/19.

Government policies to support the growth of private renting.

In addition to the incentives already in place, the Coalition is committed to growing the private rented sector further. One the Government's recent housing ministers has posted on the DCLG blog site,

"We're as determined as ever to build a bigger, better private rented sector and ensure tenants looking for somewhere to live have a choice of high quality accommodation. It's why we've introduced the £1 billion Build to Rent fund, and why we're offering up to £10 billion in housing guarantees, to bring more developers into the market and build homes specifically for private rent. Indeed, we've appointed a specialist Private Rented Sector taskforce precisely to promote these two schemes to the wider industry."

(Prisk, 2013) Source: http://markprisk.communities.gov.uk/category/private-rented-sector/

One of the more long-lasting housing ministers, Grant Shapps, (in post for 26 months) has stated, “Almost nobody talks about the Private Rented Sector, and it has a vast remit in terms of people who rent privately and choose never to buy, and also from a social housing perspective. I think the private rented sector is almost the unsung hero of the housing market.”

Source: http://www.paragon-group.co.uk/Files/MAIN/pdf/PRS%20Reports/PRS%20paper%202013.pdf

The unsung heroes are to be rewarded with further bounties including the £1 billion Build to Rent Fund and £3.5 billion of housing debt guarantees. Although the scale of these investments is huge (housing market renewal was less than £2.5 billion by comparison) there are no expected returns for the taxpayer specified. Nor are there any estimates of the effects on benefit spending. If we assume that the average grant rate for social housing of £20,000 per unit can be read across to private renting then these measures should generate at least 225,000 more private dwellings with at least 34% qualifying for housing benefit, generating an additional £500 million per year in housing benefit by 2016. It is also interesting to note that the value of the existing private rental sector is £1.25 trillion (PPP, 2014), a figure achieved without any of the incentives now being funded by the taxpayer.

How does this inflate the price of housing and make housing less affordable?

The distortions endemic throughout the process of purchasing or renting housing make it meaningless to talk of a housing market. Instead we have a variety of housing outcomes which can be considered in terms of their effects upon wealth generation, costs and social outcomes.

In terms of wealth generation, the odds are stacked in favour of people who are already wealthy or can access cheap finance. The complex system of tax advantages and subsidies helps inflate demand for housing as an investment. In Blackpool for example, the private rented sector has trebled in size over the last 15 years and 80% of its tenants are on housing benefit[8]. In such circumstances talk of market rents is nonsensical. It is highly likely that without housing benefit Blackpool would have depopulated and house prices collapsed, bringing them within reach of poorer people who could then buy without subsidy. With an average of 33% of private tenants on housing benefit the distortions are obvious, in Manchester alone one in three households are on housing benefits[9].

The OECD (“Real Housing Prices,” n.d.) are not alone in identifying the gross distortions in the UK’s housing system, many economists have criticised the Help To Buy policy and identified its potential to drive up house prices. In addition, the assistance and tax breaks given to private landlords in the context of selling off social housing at huge discounts and cutting investment in new social housing by 60% help remove competition within the market. Put simply, the less social housing the higher the rents chargeable. A macro-economic climate of low interest rates make it cheap to borrow for investment, disincentivise saving and make the returns on lettings look very good.

For the less well off, the complex system of subsidies means that renting is becoming more of a necessity. The average graduate now has to repay £66,897 in fees for tuition and accommodation (Crawford & Jin, 2014) and hence their ability to finance a mortgage is constrained. Similarly, high house prices exclude more from owner occupation, especially when coupled to deposit requirements. The intrusion of private landlords also means that there are fewer houses for first time buyers to purchase, as BTL landlords move into cheaper areas. Analysis of the 2001 and 2011 censuses reveals that the PRS expanded most in the cheaper to buy areas. Research has also shown

[8] (“House of Commons - Communities and Local Government Committee: Written evidence submitted by Blackpool Borough Council,” n.d.)
[9] (Manchester City Council, 2014)

that banks are more willing to lend and lend on better terms to investors ("Is the property market set for another buy-to-let ," n.d.; Leyshon & French, 2009; Sprigings, 2013).

The costs for society are also considerable. Let us recall the reasons why a "property owning democracy" was advocated. In 1981, Margaret Thatcher stated at her conference address, "*Our concern is to create a property owning democracy and it is therefore a very human concern. It is a natural desire of Conservatives that every family should have a stake in society and that the privilege of a family home should not be restricted to the few".* The notion that the sense of value and attachment created by earning something and possessing something is recurrent throughout human psychology, often referred to as the endowment effect (Apicella, Azevedo, Christakis, & Fowler, 2014; Van Dyne & Pierce, 2004; Walker, 2012). In fact, the notion of property owning democracy is not the exclusive territory of the Right. The well-respected Liberal legal philosopher, John Rawls, used the phrase to argue that the wider distribution of property ownership was an essential bulwark of liberty (O'Neill and Williamson, 2013). Within the USA the decline of owner-occupation and the rise of private renting has long been equated with neighbourhood decline (Downs, 1981; Katz, 2004; Mallach, 2006; Newman & Ashton, 2004). In essence, the problems lie in the ability of high levels of private renting to facilitate excessive churning of properties, allow disrepair and decay and remove incentives for tenants to remain in an area. Private landlords are also often small scale operations and unfamiliar with the need to carefully allocate properties and the legal niceties of dealing with problematic tenancies[10] . For the private tenant, housing benefit takes away the nexus of ownership, renting removes the incentives to look after the tenancy and increasing supply of private renting can enable easy movement away, especially when coupled to poor checking procedures.

Conclusions

When we couple together the statistics relating to government welfare spending, the changes occurring in tenure, mortgage lending and home ownership we can start to appreciate the seismic shifts that have occurred already and are now being powered further by the Coalition government. It is little wonder that the private consultancies involved in rental housing are looking forward to golden years ahead as the sector expands and income streams pour in, from the poor and from the taxpayer. When we couple the ways in which our housing system is being manipulated to the advantage of the better off, to the wider agenda of social austerity we appreciate the real meaning of pauperism – the creation of dependency upon the State, the inability to live an independent life and little sense of personal control.

It's a far cry from the aspirations of Grant Shapps as housing minister in 2011. In those days of recession and static house prices his words sounded like a clarion call of common sense. In his interview with the Guardian he was quoted as saying,

"I think it is horrendous that a first-time buyer would need to be 36 on average if they do not have the support of mum and dad. The main thing everyone requires for their subsistence is a roof over their head and when that basic human need becomes too expensive for average citizens to afford, something is out of kilter. I think the answer is house-price stability. We had this crazy period from 1997 to 2007 when house prices almost tripled, which is fine if you have a house."

In Britain one in five households get help with their housing costs from the Government, over five years the Government will commit to more than £25 billion in supporting Help To Buy, private builders, private landlords and other tax breaks. We will witness unprecedented switches from owner occupation to renting and we will all pay more in tax to support a housing system designed to produce profits rather than meet needs.

[10] PPP research 2014, found that 84% of BTL landlords did not factor in void periods or maintenance into their predicted investment returns.

Appendix of tables

Table 1- Tenure change in Britain 2001-2012

Thousands of dwellings						
	Owner occupied	Private rented	Social and publlic housing	All dwellings	Increase in private renting	%
2001	17,127	2,393	5,274	24,794		
2002	17,280	2,465	5,224	24,968	72	2.9%
2003	17,230	2,826	5,099	25,156	361	12.8%
2004	17,508	2,865	4,984	25,358	39	1.4%
2005	17,644	3,035	4,896	25,576	170	5.6%
2006	17,619	3,325	4,867	25,810	290	8.7%
2007	17,683	3,537	4,840	26,059	212	6.0%
2008	17,657	3,841	4,818	26,317	304	7.9%
2009	17,569	4,125	4,836	26,529	284	6.9%
2010	17,478	4,370	4,848	26,696	245	5.6%
2011	17,402	4,591	4,862	26,855	221	4.8%
2012	17,322	4,799	4,887	27,008	208	4.3%
Average					193	6.1%

Source: Author's amendments to table LT102, CLG .
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/200668/LiveTable102.xls)

Table 2 – The projected numerical growth of private renting '000s.

	Private rented	Increase in private renting
2012	4,799	
2013	5,092	293
2014	5,402	311
2015	5,732	330
2016	6,082	350
2017	6,452	371
2018	6,846	394
Total		2,047

Source: Author's own calculations from CLG data. All figures in '000s.

Table 3 – IMLA tenure projections

UK tenure projections to 2032

	Owner-occupied units (thousands)	% of total	Private rented units (thousands)	% of total	Social rented units (thousands)	% of total	Total units (thousands)
2007	18,206	68.0	3,606	13.5	4,886	18.3	26,698
2012	17,835	64.2	4,920	17.7	4,936	17.8	27,691
2017f	17,445	61.1	6,106	21.4	4,996	17.5	28,584
2022f	17,064	57.5	7,578	25.5	5,058	17.0	29,700
2032f	16,326	49.2	11,672	35.2	5,182	15.6	33,181
Source: DCLG / IMLA							

Source: IMLA

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