Widening access to home-ownership

Michael and James Bartholomeusz
October 2017

The UK is in the grip of a housing crisis. A great divide has opened up between those who own a home and those who do not, with bridges to home-ownership increasingly narrow. In the 1990s it took on average three years to save for a deposit; today, it takes 20. At the same time, one-tenth of the adult population owns two or more homes while four-tenths own no home at all,[1] yet rental yields are often double or more the level of current mortgage rates. Meanwhile, the proportion of people renting homes privately has increased from 8% to 19% at the same time as low-income tenants' spending on rent has increased by 33%, from an average of 21% to 28% of their wages. The situation is even more acute in London, where the proportion has increased by 53%.[2] The inequality between those who own a home and those who do not has the potential to cause significant social and economic trouble if left unchecked.

The dramatic fall in home-ownership has a number of causes. Property prices have inflated hugely in the last few decades, the result of population growth, a chronic lack of new supply on the market, and investor flight to the comparative shelter of the property market in the wake of the financial crash. With high deposits needed to access an affordable mortgage and rental costs taking up a higher proportion of household incomes (while those incomes stagnate) even middle-income households are struggling to make the leap to owning their own home.

Thanks in part to tireless campaigning by groups like Shelter, the housing crisis has finally made it onto the political agenda. In particular, since the millennial generation made its first major electoral impact in June 2017, political attention has focussed on winning the support of the victims rather than the beneficiaries of the crisis. While some initiatives such as help-to-buy and the lifetime ISA have been launched over the last few years, these remain fragmented and cursory responses. The central component of any new housing policy must be a significant increase in supply of the right sort of homes in the right places across the country. Nevertheless, a better approach to housing finance could complement this and help more people become home-owners until the supply of new housing meets need.

We believe there is a new approach that would mobilise the wealth of older investors to assist reliable renters in purchasing a share of their home, Investors' capital, such as a portion of that currently held in private personal pension funds, could be redirected into a new fund that would provide loans to renters, allowing them to purchase a share of an existing rental property from private landlords. Transactions would take place in a transparent digital marketplace that matches renters and landlords, perhaps hosted by an existing letting or estate agent, with properties valued by independent experts.

There are potential benefits for all parties involved. Renters would be able to acquire part of arguably the most important asset, a home. There could also be a reduction in the overall property expenses borne by renters (because the proportionate reduction in rent would likely be more than the interest charge on a loan to purchase the share of property). Landlords would benefit by renting to tenants with a longer-term interest in maintaining the property, and by being able to gradually liquidate their assets rather committing to a one-off sale, thereby spreading their investment risk (perhaps to take a share in another property). Returns on the initial loans would be paid to investors via the fund and provide them with the satisfaction of contributing to a fairer intergenerational settlement, while maintaining their investment pot for retirement and/or passing on to their heirs. In due course, renters who own a share of their home should be able to re-finance the initial loan in the traditional mortgage market.

There are a number of questions posed by this approach. How would mortgage regulations apply to transactions undertaken in this way? Would investors need incentives to redirect a portion of their funds? Could some form of government support help, similar to the help-to-buy scheme? What incentives for landlords would be needed to liberate a sufficient number of properties to make a difference? How would stamp duty be charged? Would legal or other changes be required to enable shared ownership of an existing property? How might a secondary market function, with both renter-owners and landlords trading shares of individual properties? Would the economics, including fees, make such a scheme attractive for all parties? What volume of take-up would pose the systemic risk of a demand-led property-price surge?

If these questions are resolved, this new approach could contribute to solving the lack of secure and affordable housing, quickly widening access to home-ownership until sufficient new homes can be built to permanently solve the UK's housing crisis.

The Jetram Partnership is a specialist UK financial services consultancy focussing on risk, governance and regulation. It also produces occasional commentary on the role of finance in the economy and wider society. If you wish to further discuss the issues raised in this paper, please get in touch with the authors at michael.bartholomeusz@jetram.co.uk or james.bartholomeusz@jetram.co.uk.

[1] http://www.bbc.co.uk/news/business-40973859
[2] http://www.bbc.co.uk/news/business-41601455