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Home Truths: A Progressive Vision of Housing Policy in the 21st Century

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RENEWING
THE CENTRE

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SUMMARY

A housing crisis is sweeping through cities from Sydney to London to San Francisco. Following a short slump in 2008, house prices across the OECD have soared, contributing to a decline in living standards and a rise in wealth inequality. Today, housing is the source of economic anxiety, social resentment and political frustration.

Housing is the source of economic anxiety, social resentment and political frustration. Many governments are caught between the competing interests of different housing tenures, resulting in timid policy that tinkers at the edge of the housing market. Only a bold, open and honest discussion of the politics—not just the policy—of housing can move towards a housing market that works for the many, not the few.

This report sets out a bold new progressive agenda for housing reform. Many governments today are caught between the competing interests of different housing tenures. The result is timid policy that tinkers at the edge of the housing market. The goal of this report is to move past the gridlock to forge a new political

consensus that balances the aspirations of renters and homeowners and builds a future of shared prosperity.

The report begins with the principles. For decades, the goal of housing policy has been to boost homeownership. But the promise of these policies has recently given way to their pitfalls: levels of homeownership are at record lows, while levels of rental-sector evictions are reaching record highs. Progressive housing policy must therefore be rooted in a broader set of principles: providing security for all tenures, promoting community between residents and newcomers, and guaranteeing macroeconomic stability against excessive property speculation.

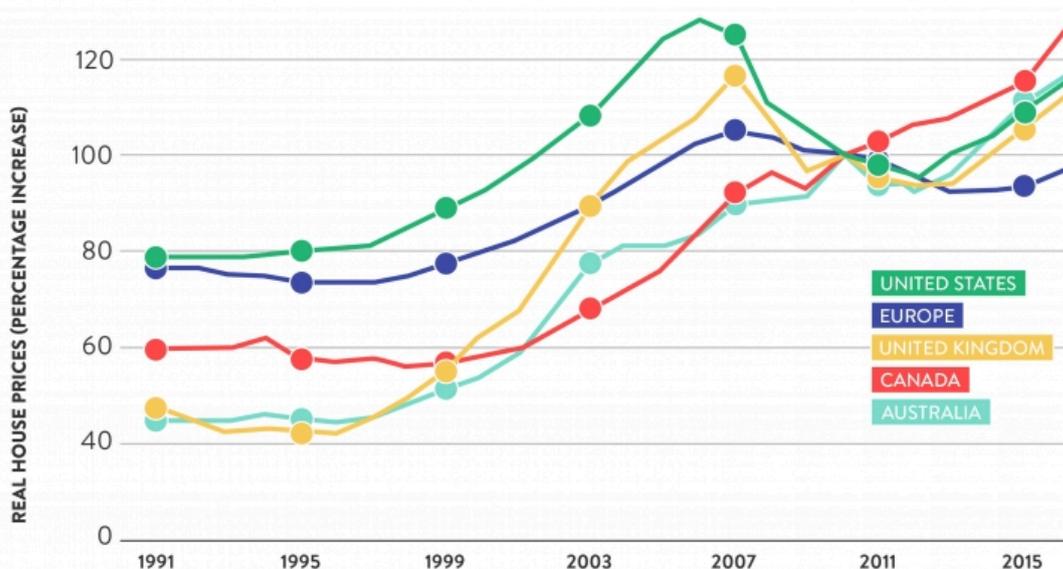
This report proposes five policies to advance these principles, including a community reinvestment programme based on a land-value tax and a sovereign-property fund that expands public housing investment. Together, they aim not only to boost overall housing production but also to guarantee that the houses produced are affordable.

Housing reform will never yield easy win-win solutions. Each of the policies presented in this report involves trade-offs. Those trade-offs need to be addressed head-on. Only an open and honest discussion of the politics—not just the policy—of housing can move towards a housing market that works for the many, not the few.

INTRODUCTION

The world is in the grips of a prolonged housing crisis. London is not alone: cities from Sydney to San Francisco are struggling with soaring rents and housing shortages that displace families from their homes and young people from their life prospects. In the course of the 2007–2008 financial crisis, many observers expected a sustained price correction in the housing market.¹ In the years since, however, rental prices in many large cities have continued their ascent to pre-crisis levels, while real wages have remained stagnant. As of 2014, over 60 per cent of Organisation for Economic Cooperation and Development (OECD) countries were experiencing real house-price inflation (see figure 1).² Housing has become prohibitively expensive not only for low-income tenants but also for middle-income households.³

Figure 1: House-Price Inflation, 1991–2015



Source: OECD

Things must change. Across Europe and North America, the cry for housing reform is growing louder. Following decades in the

¹ See, for example, BBC, 2008. “House prices ‘see sharp decline.’” Accessed November 2017.

² OECD. 2017. ‘Focus on house prices.’ Accessed November 2017.

³ Shiller, R. 2017. “Why Do Cities Become Unaffordable?” Project Syndicate. Accessed November 2017.

background of political debate, the housing question is becoming a more salient feature of candidate platforms and party manifestos.

The race for the London mayoralty in 2016 was a “referendum on London’s housing crisis”.⁴ The race for New York City in 2013 hinged on Mayor Bill de Blasio’s affordable housing program.⁵ And in Paris, Mayor Anne Hidalgo pledged in 2014 that her “absolute priority is housing”.⁶ In some cases—as in recent elections in the United Kingdom (UK) and Germany—housing has come centre-stage in the national contest, as well.⁷

But the solutions offered by these policymakers have been timid. Most governments tinker at the edges of the housing market: They pledge some money for new housing construction, or they pledge new benefits for first-time buyers. But they shy away from substantive reform that might alienate a constituency of homeowners.

Such tiptoeing around the housing status quo threatens everyone—not just the needy. In the short term, renters lose out. They are excluded from the wealth gains of their homeowner neighbours, and they are also excluded from the opportunities available only in expensive superstar cities like London.⁸ In the long term, though, the housing market presents serious risks to homeowners, as well. Many commentators are worried that the recent house price inflation is evidence of a new housing bubble, which if popped could send millions of homeowners into negative equity and the broader economy into recession.⁹

This report begins from a broad policy frame. Most standard approaches treat housing as a welfare issue, much like health and education. Housing policy therefore focuses on housing need, and

4 Sadiq Khan at the Labour Party Conference, September 2015.

5 “Nearly 6 in 10 said [de Blasio’s] policies would increase the amount of affordable housing in the city and would improve public education.” *New York Times*, 28 October 2013.

6 Willsher, K. 2014. “‘My absolute priority is housing,’ says Paris’ first female mayor.” *Los Angeles Times*. Accessed November 2017.

7 See, for example, Shotter, J. 2017. “Germany’s housing costs set to become election issue.” *Financial Times*. Accessed November 2017.

8 Florida, R., 2005. *Cities and the creative class*. Routledge.

9 See “Global Housing Watch,” International Monetary Fund. URL: <http://www.imf.org/external/research/housing/>

housing provision is relegated to planning departments and other second-tier ministries often tightly reined in by delivery departments and the treasury.

But housing is not like the other pillars of the welfare state.¹⁰ In the cases of health and education, it is possible to devise policies that help those who lack resources without hurting those who do not. In the case of housing, no such pure win-win solution exists. It is not possible to address housing need in isolation: the management of housing welfare is tied directly to the management of housing wealth.

In other words, housing markets are broadly zero sum. While some are suffering through a housing crisis, others are saving their property as a nest egg for retirement. Everyone is bound together in this see-saw dynamic—urban and rural, homeowners and renters, migrants and citizens. The solution to the housing crisis will therefore not just be a technical, targeted fix. It will be a political negotiation that requires bold leadership.

This report sets out a new progressive vision of housing policy that is attuned to these politics. It explores the effects of the housing crisis on key dimensions of political life and develops a set of shared principles and policies to address them.

¹⁰ Malpass, P. 2008. Housing and the new welfare state: Wobbly pillar or cornerstone?. *Housing studies*, 23(1), pp.1-19.

WHY EVERYONE SHOULD CARE ABOUT HOUSING

Housing plays a fundamental role in people's lives. It provides security: shelter is a necessary component of a decent living standard. It can determine mobility: homeownership is, for many households, an avenue to wealth expansion. And it shapes identity: people's homes give them a sense of place, and their neighbourhoods give them a sense of community.

Yet housing remains marginal to the analysis of politics. There is broad consensus that voters today are reacting to a mix of anxiety, resentment and frustration.¹¹ But recent studies have largely failed to consider the key role that housing plays in each. Economic analysis tends to focus on the labour market, overlooking the role of homeownership in wealth formation. Sociological analysis tends to focus on race, ethnicity and immigration, overlooking the role of housing in integrating the population of outsiders into communities. Housing should be central to the understanding of the current political moment.

ANXIETY

One of the most prominent patterns of the last two decades is the rise of economic insecurity among working households. Real wages across the OECD are stagnant, undermining expectations of upward mobility.¹² In some cases, like the UK, working households have seen real wages decline since the financial crisis, even as growth has rebounded in the broader economy.¹³ Surveys report record high levels of fear and concern about uncertain economic futures.¹⁴

Much attention has been paid to the role of labour market in generating this anxiety. Flows from trade have hit hard in the manufacturing sectors of developed economies, reducing

11 Eiermann, M. 2017. Tony Blair Institute for Global Change.

12 OECD. 2016. "Job market recovering but wage growth remains weak." Accessed November 2017.

13 Office of National Statistics. 2017. "Analysis of real earnings."

14 See, for example, Cox, D. et al. "Anxiety, Nostalgia, and Mistrust: Findings from the 2016 American Values Survey." Public Religion Research Institute.

employment opportunities among young people in particular.¹⁵ Technological change, meanwhile, threatens to automate away stable careers of the past, hollowing out the middle class to leave only a handful of ‘lovely’ jobs and many more ‘lousy’ ones.¹⁶ As Chris Yiu argued in his recent Institute report, “artificial intelligence and robotics are enabling machines to outperform humans”.¹⁷ Anxiety about automation looms across advanced capitalist economies.

Much less attention has been paid to the ways in which the housing market has contributed to this crisis of economic security. Rapid house-price inflation has eaten away at households’ disposable income and disrupted expectations of stable tenure. The British case is dramatic. Between 2002 and 2015, the rise in housing costs erased all gains in earnings for more than half of households in Britain.¹⁸ In London, rent has climbed more than 30 per cent in the past decade, while wages have remained the same (see figure 2). For millions of Britons, living standards are not merely stagnant. Rather, when housing costs are taken into account, their living standards are in decline.

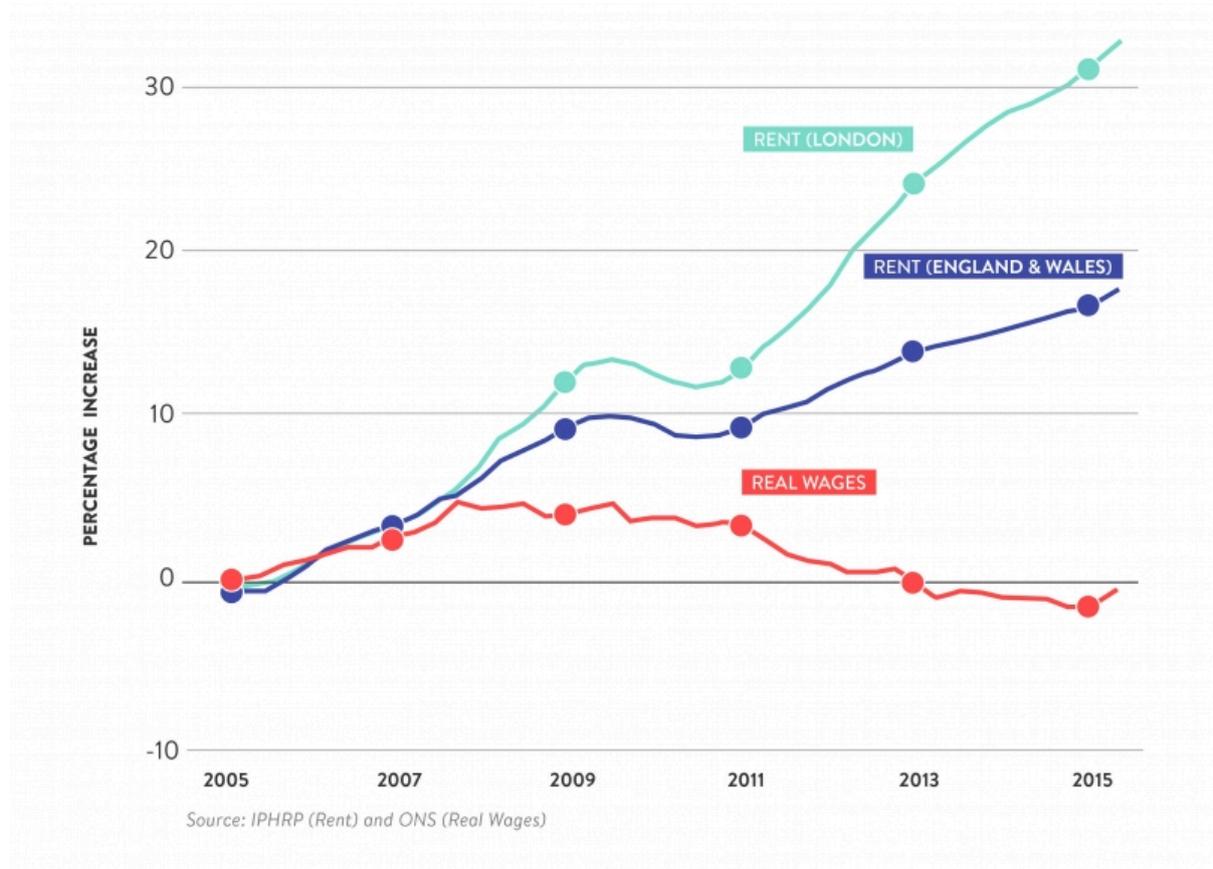
15 Autor, D.H., Dorn, D. and Hanson, G.H., 2016. The china shock: Learning from labor-market adjustment to large changes in trade. *Annual Review of Economics*, 8, pp.205-240.

16 Goos, M. and Manning, A., 2007. Lousy and lovely jobs: The rising polarization of work in Britain. *The review of economics and statistics*, 89(1), pp.118-133.

17 Yiu, C. 2017. “Technology for the Many.” Tony Blair Institute for Global Change.

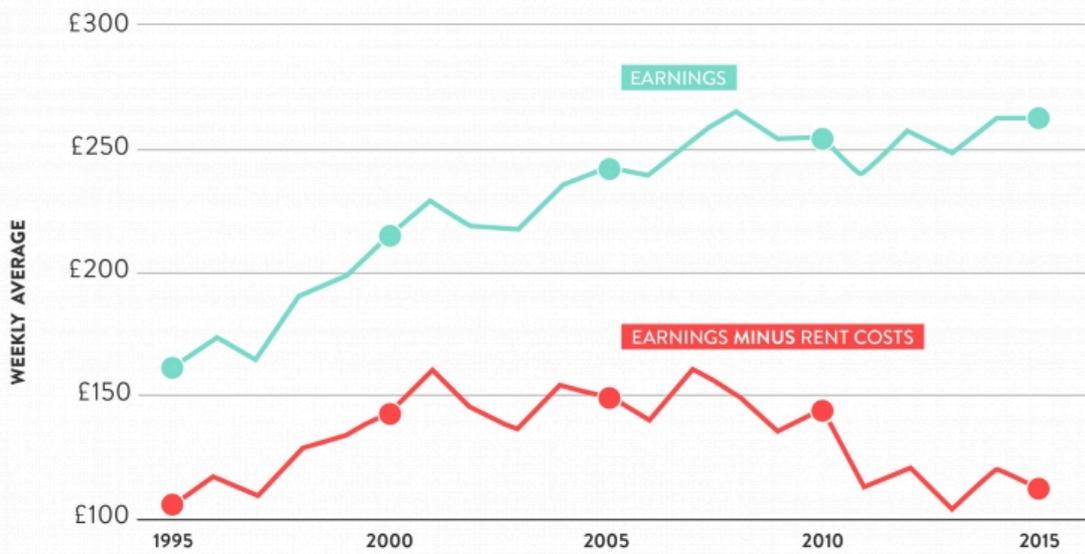
18 Clarke, S., Adam Corlett and Lindsay Judge. 2016. *The housing headwind*. Resolution Foundation.

Figure 2: Rent Inflation and Wage Stagnation in the UK, 2005–2015



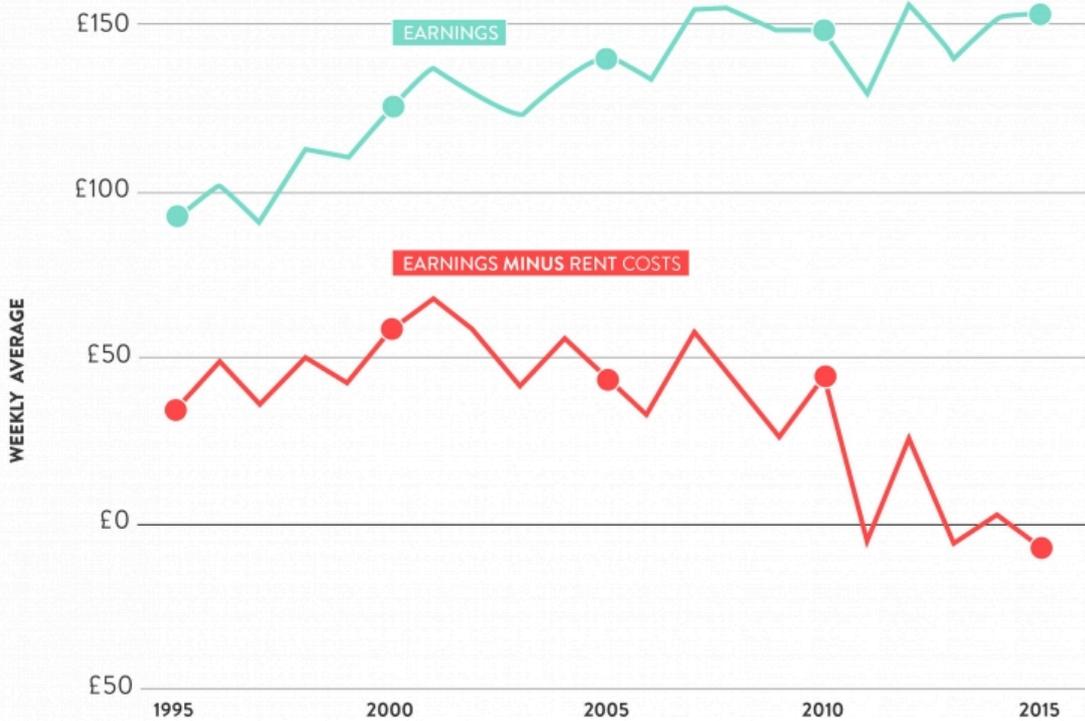
The rise in house prices therefore comes at the cost of upward mobility. There are four key mechanisms that link house prices to mobility. The first is the cost of rent. Rising rents reduce both households' disposable income and their savings towards big-ticket items that are closely associated with social and economic mobility—like childcare, a car or a university education. Figures 3 and 4 show the widening gap between average earnings before and after housing costs, as rent eats away at disposable income.

Figure 3: Disposable Income for London's Bottom Third



Source: The Family Resources Survey, 1997-2015 (Study Number 4068)

Figure 4: Disposable Income for London's Bottom 15 Per Cent



Source: The Family Resources Survey, 1997-2015 (Study Number 4068)

The second mechanism is the cost of a mortgage. The ratio of house price to household income has increased rapidly over the last two decades across the OECD. Consider the cities of California. In Los Angeles, the ratio is 9.3; in San Francisco it is 9.2; and in San Jose it is 9.6.¹⁹ This rise in house prices has pushed younger, poorer citizens off the property ladder. In Anglo-Saxon countries, in particular, rates of homeownership are declining to record lows. In England, homeownership has reached a 30-year low.²⁰ In the United States (US), homeownership has reached a 50-year low.²¹

Homeownership has long been an important avenue to establish and expand household wealth, but house-price inflation has either blocked off this avenue or required first-time buyers to take on large levels of debt to pass through it. Today, one in five homebuyers in England takes on a mortgage with a repayment plan of 30 years or more, keeping them in debt until old age.²² High house prices therefore both limit upward mobility and, through high levels of household debt, increase financial insecurity. Roughly two-thirds of mortgagors in Britain own a variable-rate mortgage, making them vulnerable to a rise in interest rates from their current position close to zero. A sudden increase in the Bank of England's interest rate threatens to put these families into negative equity. In this way, the impact of house-price inflation on economic anxiety is not limited to low-income tenants but applies across a much broader swathe of the housing market.

The third link between housing and mobility relates to the labour market. Among service-sector industries, cities benefit from so-called agglomeration economies, by which productivity increases as a product of the close proximity of firms and their workers.²³ The result is that employment opportunities are increasingly

19 Demographia. 2017. "13th Annual International Housing Survey." Accessed November 2017.

20 Jones, R. 2015. "Home ownership in England at 30-year low, official figures show," *The Guardian*. Accessed November 2017.

21 Gopal, P. 2016. "Homeownership Rate in the US Drops to Lowest Since 1965." *Bloomberg*. Accessed November 2017.

22 Mortgage Advice Bureau. 2015. "Number of 30-year mortgages taken out increases." Accessed November 2017.

23 Rosenthal, S.S. and Strange, W.C., 2004. Evidence on the nature and sources of agglomeration economies. *Handbook of regional and urban economics*, 4, pp.2119-2171.

concentrated in the creativity clusters that form in major cities. In the US, these clusters are almost exclusively located on the West and East Coasts of the country.²⁴ In turn, high demand for employment in these cities has bid up rent levels that are unaffordable to the average American. The levels of income necessary to afford rent American cities, for example, are high and rising: \$100,000 in Seattle, \$145,000 in Los Angeles and \$216,000 in San Francisco.²⁵

The same holds true in Britain. London's agglomeration economy offers the highest wages in the UK and, as such, attracts young people to find them. Partly due to this high level of demand, however, roughly two-thirds of the whole of London is unaffordable on an income of £37,000.²⁶ Such high levels of rent exclude residents of smaller towns and villages from the city and the employment opportunities it offers. They have been left behind in the housing markets of the new economy.

The fourth link is indirect. Over the last two decades, economies in the West have suffered from a prolonged period of secular stagnation, during which interest rates have remained low but growth has remained sluggish. One consequence of sustained low interest rates has been a glut of investment in real estate, pushing up prices and putting economies at risk of asset-bubble formation. This rapid increase in real-estate investment has pushed banks' lending portfolios away from manufacturing and other productive industries and towards residential mortgages. In 2009, 76 per cent of all loans in Britain went to property. Sixty-four per cent were dedicated to residential mortgages alone. House-price inflation therefore reduces mobility from two very different directions. On the one hand, it has a directly negative effect on the affordability of local housing markets. On the other, it drags down the productivity of the economy, contributing to the broader phenomenon of wage stagnation.

24 Martin, R., Florida, R., Pogue, M. and Mellander, C., 2015. Creativity, clusters and the competitive advantage of cities. *Competitiveness Review*, 25(5), pp.482-496.

25 Dixon, A. 2016. "The Income Needed to Pay Rent in the Largest US Cities." *SmartAsset Report*. Accessed November 2017.

26 Barr, C. and Shiv Malik. 2016. "Young families priced out of rental markets in two-thirds of UK." *The Guardian*. Accessed November 2017.

The overall economic effect of house-price inflation has been a steep rise in inequality. Firstly, there is growing inequality between housing tenures: while homeowners have gained from rising house prices, renters have been locked out of this wealth generation. In the US, for example, the average homeowner has 36 times more wealth than the average renter.²⁷ Secondly, there is inequality between geographies: while some property markets boom, others remain mired in the mortgage debt of the financial crisis bust. In the UK, the housing market is one of the key dividing lines between North and South England. Only 21 per cent of adults aged 45–64 in the Southeast region have household wealth less than £250,000. In the Northeast, that number is 45 per cent.²⁸

Finally, house-price inflation has had a dramatic impact on intergenerational inequality. Unlike their baby boomer parents, young people today are struggling to save towards a downpayment, earning their informal title as ‘generation rent’. In many cases, high housing costs have forced young adults back into the homes of their parents. Across Europe, the proportion of young people living with their parents is reaching record highs—66 per cent in Italy, for example, and 55 per cent in Portugal.

In this way, the rise in housing costs has stunted the traditional pathway into adulthood. Millennials are on track to become the first generation on record to have lower lifetime earnings than the generation that came before them.²⁹ And the shifting distribution of property wealth has been the driving force behind this trend.³⁰

RESENTMENT

These anxieties are also social. Over the last two decades, rapid demographic change and new social movements have reignited conversations about national identity and citizenship. In the process, societies have become divided between advocates of an

27 Federal Reserve. 2014. Survey of Consumer Finances.

28 Office of National Statistics. 2013. Regional Economic Analysis. Accessed November 2017.

29 See “Stagnation Generation?” Intergenerational Commission, Resolution Foundation. 18 July 2016.

30 D’Arcy, C. and Laura Gardiner. 2017. “The Generation of Wealth.” Resolution Foundation Report. Accessed November 2017.

open identity that welcomes these changes and a closed identity that resents them.³¹ Far-right leaders often mobilise support along this divide, appealing to voters' anxieties over recent changes in their communities.

Attention to the housing question is necessary to understand these social anxieties. Housing is closely bound with identity, endowing citizens with a sense of belonging. Resentment thrives when rapid demographic change couples with economic insecurity to threaten that sense of belonging.

Over the last decade, the housing market has put severe strain on communities throughout the West. Following the financial crisis, 9.3 million families lost their homes to foreclosure.³² Foreclosure has had a lasting impact on their economic welfare, but it has also displaced them from their communities, silently reshaping neighbourhoods across the country as millions are forced from their homes.³³

The rental sector, however, has been even less hospitable to these families and the formation of community around them. The rate of eviction in the private rental sector is reaching record highs in Anglo-Saxon countries in particular. In England, landlords make use of accelerated or no-fault evictions to remove tenants and raise the rent without citing any grievance against them. No-fault evictions are at an all-time high across the country.³⁴ In the US, an estimated 2.7 million families were evicted from their homes in 2016 alone, and these estimates fail to account for the wide range of informal and illegal evictions that are not recorded.³⁵

The increasing rate of displacement has bred anxiety among affected households. One in five adults in the UK has experienced long-term anxiety or depression in the last five years on account of their housing situation; one in six reports physical problems along

31 Ibid.

32 Fears, K. 2015. 'Return Buyers,' National Association of Realtors. Accessed November 2017.

33 Martin, A.J., 2010. After foreclosure: The displacement crisis and the social and spatial reproduction of inequality. Institute for the Study of Social Change.

34 Wilson Craw, D. "Landlords are turfing people out of their homes without reason," The Guardian. Accessed November 2017.

35 American Community Survey, 2016. Accessed November 2017.

with it.³⁶ Foreclosures have had a similarly significant impact on mental health in the US and throughout Southern Europe, where mortgage debt soared in the wake of the financial crisis.³⁷

The right capitalises on this anxiety by directing blame at the immigrant population for stretching housing infrastructure.³⁸ One of the primary driving forces behind the rise of right-wing radicalism in Europe has been the perception of immigrants as a threat to scarce welfare resources.³⁹ Since the financial crisis, governments across Europe have trimmed away at welfare programmes under the auspices of fiscal austerity. In the UK, austerity reform slashed council funding by 40 per cent since 2010. In turn, welfare state retrenchment has encouraged welfare chauvinism, the principle by which limited state resources should be devoted to native citizens over their immigrant neighbours. The shortage of housing production across Europe and North America has played a key role in encouraging welfare chauvinism. Over 60 per cent of British voters claim that immigration is the cause of the housing crisis—higher than any other explanation.⁴⁰ A study of the Austrian case found that support for anti-immigrant parties is “highly responsive to perceived scarcity” in public-housing provision.⁴¹

The integration of native and non-native groups presents both perils and promises, depending on circumstances of their

36 ComRes. 2017. “Shelter – Public Perceptions of Housing and Mental Health.” Accessed November 2017.

37 McLaughlin, K.A., Nandi, A., Keyes, K.M., Uddin, M., Aiello, A.E., Galea, S. and Koenen, K.C., 2012. Home foreclosure and risk of psychiatric morbidity during the recent financial crisis. *Psychological medicine*, 42(7), pp.1441-1448; Vázquez-Vera, H., Rodríguez-Sanz, M., Palència, L. and Borrell, C., 2016. Foreclosure and health in Southern Europe: results from the Platform for People Affected by Mortgages. *Journal of Urban Health*, 93(2), pp.312-330.

38 In Prime Minister Theresa May’s recent speech on the government’s Brexit plan, she claim that “record levels of net migration” have “stretched our infrastructure, especially housing.”

39 Hatton, T.J., 2016. Immigration, public opinion and the recession in Europe. *Economic Policy*, 31(86), pp.205-246.

40 The Observer. 2016. “UK housing crisis: poll reveals city v country split on who to blame.” Accessed November 2017.

41 Cavaille, C. and Ferwerda, J., 2016. Understanding the Determinants of Welfare Chauvinism: The Role of Resource Competition. In American Political Science Association Annual Conference, Philadelphia, PA.

contact.⁴² Where policies encourage anxiety and competition, contact threatens to increase conflict. Where policies encourage equal status and cooperation, contact can generate a new sense of collective belonging. Over the last decade, the housing market has fanned flames of resentment towards outsider groups.

FRUSTRATION

The third political trend is the perception of lost control. Across Europe and North America, there is widespread distrust of the political establishment. More than six in ten Americans reported that they do not believe either major political party represents their views.⁴³ More than 78 per cent of Europeans do not have confidence in their political parties.⁴⁴ Voters believe that established parties have cartelised, unresponsive to their needs and beholden to special interests.⁴⁵

The housing market plays an important role in stoking this political frustration. Rapid house-price inflation has created a constituency of voters who are attached to the status quo. This conservative bias engenders frustration by creating durable third rails against political reform.

While it is common to highlight the humanitarian consequences of the housing crisis, observers rarely consider the large proportion of voters who depend on sustained house-price inflation. Millions of households rely on their homes as nest eggs for retirement and as a source of income through equity release. In residual welfare state contexts like the UK and the US, property serves as a necessary complement to pension packages that are not large enough provide through old age. In many parts of the UK, returns from housing are larger than returns from labour.

42 Allport, G.W., 1954. The nature of prejudice. Basic books.

43 Cooper, B., Daniel Cox, Rachhel Lienesch, and Robert Jones. 2016. "The Divide Over America's Future." PRRI. Accessed November 2017.

44 According to author's analysis of the European Values Survey, Wave 4.

45 Katz, R.S. and Mair, P., 1995. Changing models of party organization and party democracy: the emergence of the cartel party. *Party politics*, 1(1), pp.5-28.

Attempts at political reform must deal with this reality—to win elections, you need to satisfy a coalition of voters. This is further complicated by the fact that homeowners tend to be more organised and more politically active than their renting neighbours. In the UK, renters in every age group are at least 20 per cent less likely to turnout to vote in national elections than homeowners in the same age group.⁴⁶

Homeowners are just as active at the local level: over the last several decades, they have organised powerful movements to block development projects. Several studies suggest these so-called not-in-my-backyard (NIMBY) activists have been effective in preventing the provision of affordable housing.⁴⁷ However, they have also been effective in blocking a range of other key social democratic reforms. Property taxation, for example, has been a consistent political third rail across Western democracies. In the UK, council taxes have not been updated since 1991, as members of parliament (MPs) fear alienating a constituency of property owners. In the US, homeowners have engaged in a “permanent tax revolt” to prevent any effort to increase property taxation.⁴⁸ This strong attachment to the status quo helps explain why, after two decades of house-price inflation, governments have achieved so little housing reform. In the British case, housing construction has fallen short of government targets by over 1 million units since 2004. In the American case, the White House has recently proposed a \$7.4 billion cut from the Housing and Urban Development budget.

Frustration flows from this political roadblock. In the referendum on Britain’s departure from the European Union (EU), housing tenure and geography closely predicted individual vote: homeowners in places with rising house prices were the most likely to vote to remain in the EU, while those who were excluded from housing wealth generation voted to leave.⁴⁹ It is possible to view

46 Laura Gardiner. 2016. “Votey McVoteface.” Resolution Foundation Report. Accessed November 2017.

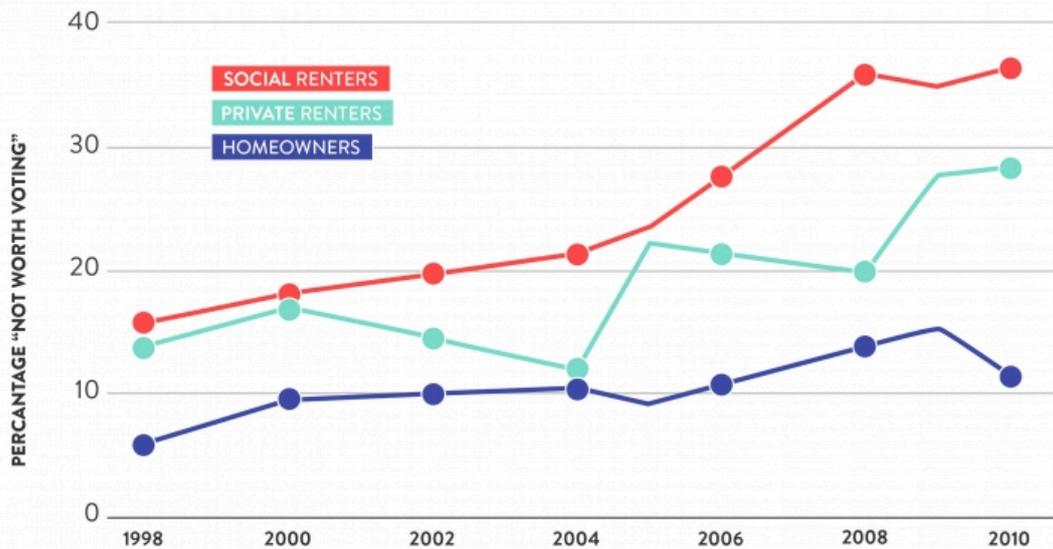
47 Scally, C.P. and Tighe, J.R., 2015. Democracy in action?: NIMBY as impediment to equitable affordable housing siting. *Housing Studies*, 30(5), pp.749-769.

48 Martin, I.W., 2008. *The permanent tax revolt: How the property tax transformed American politics*. Stanford University Press.

49 Ansell, B. 2017. “Housing & Brexit,” unpublished. Presented at Duke University.

this finding as evidence of a link between homeownership and support for the EU. More accurately, though, the finding indicates that homeowners are eager to protect the status quo. Rising house prices have been shown to shift homeowners' preferences over social policy against welfare spending.⁵⁰ In this way, house-price inflation creates a conservative coalition that seeks to block progressive reform. Voters who feel left behind are left with two unfortunate options: they may either revolt, as in the Brexit vote, or they can opt out of politics all together. In the British case, many have done the latter (see figure 5). The rate of voter apathy among renters has increased rapidly, while it has remained fairly low among homeowners. The growing sense of political inequality contributes to the frustration flowing through the grassroots.

Figure 5: Political Apathy and Housing Tenure in the UK, 1998–2010



Source: British Social Attitude Survey

50 Ansell, B., 2014. The political economy of ownership: Housing markets and the welfare state. *American Political Science Review*, 108(2), pp.383-402.

WHAT IS TO BE DONE?

In short, housing systems are broken. Rapid house-price inflation and residual housing provision have engendered new anxieties—economic, social and political—that have contributed to a crisis of living standards and poisoned politics, in turn. To address these anxieties, an ambitious new vision is needed for housing policy.

The following policies not only have the potential to address the anxieties engendered by the existing housing market. They can also play a more positive role in the fortification of democracy by making households more secure, communities more cohesive and cities more equitable. In other words, ambitious housing policy is not just good defence against the populist challenge to liberal democracy; it is good offence, as well.

This vision has two parts. First are the principles. Current models of policymaking are highly technical in nature—crafted by civil servants, housing policy has resolved to a question primarily of budgets and targets. Instead, there is a need to revive a conversation about the goals of housing policy, working towards three core principles: security, community and stability. Each engages difficult trade-offs inherent to housing policy—between wealth and welfare, residents and newcomers, and economic growth and economic health.

Based on these principles, the second section sets out five bold proposals for the new housing policy vision. These are not tailored to specific countries or cities, nor are they totally comprehensive in scope. Instead, the proposals aim to reshape the housing market in more fundamental, radical ways, reorienting it away from speculation and towards sustainable provision.

PRINCIPLES

For much of the last half century, there was relative consensus that the singular goal of housing policy was homeownership.⁵¹ In the Anglophone countries, political leaders mobilised the ideal of

⁵¹ Doling, J., 2006. A European housing policy?. *International Journal of Housing Policy*, 6(3), pp.335-349.

homeownership, from the “dream of a property-owning democracy” in the UK to the “national homeownership strategy” in the US.⁵² Their goal was to provide households with a sense of financial security and long-term stability.

To drive homeownership, policymakers relied on two tools. Firstly, governments competed to set ambitious construction targets that expand total housing stock for purchase. Secondly, governments introduced mortgage-subsidy programmes that encourage first-time buyers to pursue the ideal of homeownership. Together, these policy tools gave millions of families an opportunity to own their own home.⁵³

However, over the last two decades, the promise of policies oriented towards homeownership has given way to their pitfalls. A narrow focus on mortgage finance has led to rapid house-price inflation. Housing production has fallen short of its targets, exacerbating the problem further. This has ignited economic anxiety, as the rise in housing costs drives up debt and drives down social mobility. And it has generated macroeconomic volatility, as the threat of a house-price crash looms over growth forecasts.⁵⁴ Ultimately, homeownership-oriented housing policy has undermined its own goals. Rather than reducing economic inequality, housing policies today have become key drivers of it. Instead of increasing levels of homeownership, housing policies have reduced them.

Any progressive vision of housing policy must have more inclusive aims. Rather than a narrow pursuit of homeownership, progressive housing policy should seek balance between wealth and welfare. Housing systems must be able to accommodate multiple tenures, and they must be able to protect residents living in those tenures. The three core principles of security, community and stability are at the heart of this mission.

⁵² Perin, C. 1977. *Everything in its place: Social order and land use in America*. Princeton University Press; Shlay, A. B. 2006. Low-income homeownership: American dream or delusion? *Urban Studies*, 43(3), pp.511-531.

⁵³ Hamnett and J. Seavers. 1996. ‘Home ownership, housing wealth and wealth distribution in Britain’, in J. Hills (ed.) *New Inequalities*, Cambridge University Press.

⁵⁴ IMF. 2017. “Global Housing Watch.”

Security: Balancing Wealth and Welfare

A decent home endows security. One of the most basic functions of housing is to provide shelter, a necessary component of an adequate standard of living. Households feel secure in their tenure when they feel both safe in their homes and certain that they will not be unfairly thrown out of them. Housing also provides security for the future. Houses are economic assets, supporting prosperity into old age and—for many families—into the next generation.

Housing policies in Europe and North America have favoured the latter form of security over the former. Millions of renters live today in substandard housing conditions, unfit for human habitation. The World Health Organisation (WHO) estimates that housing hazards account for more than 100,000 deaths each year in Europe alone.⁵⁵ These conditions erode renters' sense of safety in their homes. Millions more live in fear of eviction. European countries are posting record numbers of evictions in the private rental sector.⁵⁶ Together, these trends indicate the erosion of renters' sense of security in their tenure.

Meanwhile, housing markets have rewarded homeowners in pursuit of financial security. According to the chief economist of the Bank of England, property in Britain is today a “better bet” than a pension for retirement. For these households, the housing market is delivering security for the future.

Progressive housing policy must rebalance these forms of security. On the one hand, housing policy must ensure that renters feel protected in their tenure, both from substandard conditions and from the so-called rogue landlords who would rather remove them than repair the property. On the other hand, it must also ensure that homeowners do not feel a threat to their future. Homeowners have legitimate anxieties about the performance of their property asset: rapid house-price inflation has meant a rapid rise in mortgage debt, and millions of homeowners face the risk of negative equity and foreclosure in the case of a house-price downturn. Policies that intentionally deflate housing costs provide a

⁵⁵ World Health Organization. 2012. “Environmental health inequalities in Europe.”

⁵⁶ European Action Coalition. “Eviction Across Europe.” Accessed November 2017.

boon to renters, who are struggling with affordability, but present a bust to homeowners, who are dependent on continued inflation. Progressive housing policy can mitigate homeowners' anxieties by insuring against mortgagors' losses and introducing complementary welfare reforms that give households a sense of security beyond the performance of their property.

Community: Balancing Rights of Residents and Opportunity for Newcomers

Housing policy shapes communities. Firstly, housing policies determine the extent to which existing residents engage with each other. Policies that encourage long-term tenancies, either in the rental sector or in homeownership, enable community formation by encouraging a stable social contact between neighbours. Conversely, policies that keep tenancies at their minimum lengths disrupt social ties by displacing families between rental contracts.

Secondly, housing policies determine the extent to which those existing residents accommodate newcomers in their communities. Housing shortages encourage conflict between existing residents and recent arrivals. Housing provision can bring new and old residents together and provide a space for their interaction.

Housing policymakers have largely overlooked the importance of community in policy design. In countries that prize homeownership, in particular, the focus of housing policy has the nuclear family and their prospects of property acquisition. The attendant rise in demand, however, served to raise house prices, creating pressure on local communities to cope with rising costs.⁵⁷ Meanwhile, housing production slowed dramatically. In the UK, construction fell by more than 25 per cent between 2006 and 2016. The combination of these two trends—pressure from demand side, poor performance on the supply side—have created strain between existing residents and newcomers, who are often blamed for the housing crunch.⁵⁸

⁵⁷ Taylor, R. 2008. "Buy-to-let mortgage lending and the impact on UK house prices: a technical report." National Housing and Planning Unit.

⁵⁸ See, for example, MigrationWatch UK. "The impact of immigration on England's housing." Accessed November 2017.

Progressive housing policy must pay more attention to the social dimension of the housing question. Decent and affordable housing provision is a proactive strategy for building trust. As Harvey Redgrave discussed in his recent Institute report on EU migration, mature democracies are suffering from a wave of anti-immigrant sentiment.⁵⁹ Progressive housing policy can address a key grievance that undergirds it. One component of this strategy involves easing anxiety about displacement. However, community-oriented housing policy must do more than protect existing residents. A key failure of existing housing policies, including progressive ones, is its defence of the status quo—both among rental-sector activists arguing against displacement and among activists arguing against development. Families should not be displaced from their homes, but they should not prevent change in their neighbourhoods. Progressive housing policy recognises that communities grow and cities change, and new housing provision must respond to these changes.

Stability: Balancing Economic Growth and Economic Health

Housing markets are key components of national economies across the OECD.

Firstly, housing markets create wealth through construction, building new stock and employing workers to do so. Construction contributes more than £110 billion, or 7 per cent, to GDP in the UK.⁶⁰ Across Europe, construction accounts for 18 million jobs and 9 per cent of European GDP.⁶¹

Secondly, housing markets contribute to the national economy through rental income that accrues to landlords and windfall gains that accrue to homeowners through equity release and property sale. Rental income in the UK accounts for 12.4 per cent of GDP. Roughly one-third of this is real rental income, which provides a direct source of income to landlords. The remaining two-thirds are known as imputed rent, which belong to homeowners who could, hypothetically realise the value of their properties at any time.⁶²

59 Redgrave, H. 2017. "EU Migration: Examining the Evidence and Policy Choices." Tony Blair Institute for Global Change.

60 ONS. "Construction industry." Accessed November 2017.

61 European Commission. "Construction." Accessed November 2017.

62 ONS. "Imputed rental income." Accessed November 2017.

Thirdly, housing has large knock-on effects on the real economy. A stable housing market encourages consumer confidence, and consumer confidence encourages consumption, in turn. By contrast, a volatile housing market creates high levels of uncertainty, discouraging consumers from investing their money in the economy at large. The latter scenario played out dramatically after the financial crisis in 2008: a sudden downturn in house prices generated anxiety among mortgagors who feared negative equity, and the reduced spending that flowed from their anxiety further contracted the economy. Volatile housing markets threaten this vicious economic cycle.

Despite the large price paid by European and North American economies in the wake of the 2008 housing bust, few lessons were learned. The new economic equilibrium of secular stagnation has encouraged international investors to shift their attention towards real estate, which has recently offered fairly steady and safe returns.⁶³ The result has been a post-crisis boom in real estate prices, which many observers are concerned has grown into an asset bubble.⁶⁴ Some of the financial instruments that led to the 2008 crash have been regulated: mortgage securitisation, for example, has declined significantly over the last five years.⁶⁵ However, the appetite for real estate investment across Europe and North America poses a present threat to economic stability. The European Central Bank has warned of “systemic risk” in several different real-estate markets across the continent.⁶⁶ The OECD, similarly, issued a warning in early 2017 about an imminent price correction in the global property market.⁶⁷

Progressive housing policy must address these vulnerabilities. While real estate investment can play an important role in stimulating economic growth, housing policymakers must aim to

63 Teulings, C. and Baldwin, R., 2014. *Secular stagnation: Facts, causes, and cures—a new Vox eBook* (Vol. 15). Voxeu.

64 Krugman, P., 2013. “Secular stagnation, coalmines, bubbles, and Larry Summers.” *New York Times*.

65 Morgan Stanley. 2017. “An Overview of the Global Securitized Markets.”

66 European Systemic Risk Board. 2016. “Vulnerabilities in the EU residential real estate sector.”

67 See Ping Chan, S. and Isabelle Fraser. 2017. “Fears of a ‘massive’ global property price fall amid ‘dangerous’ conditions and market slow-down.” *The Telegraph*.

curb the excessive speculation that threatens growth, instead. This is a careful balance: the goals of progressive housing policy must be consistent with the financial security of homeowners who currently rely on their homes to supplement low levels of pension wealth. Fortunately, there remain a variety of policy options that specifically target speculative behaviour and encourage productive use of land the properties constructed on it. The key change that is necessary for housing policy to guarantee stability is to coordinate between welfare policymakers and financial policymakers. Housing policy cannot solely set out construction targets. Rather, it must incorporate the insights of finance or treasury departments to manage the macroeconomic risks that housing markets pose to the broader economy.

POLICIES

These principles provide a blueprint for a progressive housing vision. The five policies detailed below follow from them.

The aim is to move away from the superficial solutions of the past to address the underlying ailments causing the housing crisis. Rental subsidies, for example, have provided necessary support to ailing tenants struggling to afford monthly rent. Yet they provide only temporary relief, permitting—if not encouraging—sustained house-price inflation. In the process, they drain the public purse, while endangering macroeconomic stability more broadly. If the goal is to design a policy vision that is both sustainable and equitable, such short-termist policies will not suffice. Policies need to transform—rather than tinker with—the housing market.

Community Reinvestment Programme

The housing market is highly unequal. While rewarding the owners of high-value property, it punishes renters who lack the means to buy their own homes. The current system of property taxation only makes this problem worse. Levies like the UK Council Tax are regressive. Meanwhile, levies like the UK business rates discourage housing development, driving up prices in the process.

The community reinvestment programme (CRP) overhauls the system of property taxation to direct the gains from house-price inflation towards the many, not the few.

This programme begins with the land value tax (LVT), a levy on the value of land, which is evaluated on an annual or biannual basis. Most property taxes are collected per the value of the property: large buildings with many units are charged at a higher rate than small buildings with few units. The LVT focuses instead on the land underneath those buildings.

By doing so, the LVT improves both the efficiency and the equity of the housing market. One of the primary drivers of the housing crisis is a basic shortage of supply. If new construction does not keep up with new housing demand, then prices rise while competition over scarce housing intensifies. The LVT sets up strong incentives for new housing development—collecting large amounts of tax revenue for reinvestment along the way.

“Buy land,” Mark Twain once wrote, “they’re not making it anymore.” Land is a fixed, immobile asset: you cannot make more of it, and you cannot move it overseas. Its taxation therefore cannot result in a decline in land supply, whereas taxes on property may lead to a decline in construction. Instead, the LVT encourages land owners to make most efficient use of their land. In the case of the UK, under-utilisation of land is a significant barrier to housing production. Many of the largest house builders have amassed large land banks, with upwards of 600,000 plots lying undeveloped.⁶⁸ Under the existing tax regime, land banking is highly profitable: property owners are not taxed for vacant land, even as it grows in value. The LVT corrects for this. With the LVT, property owners would have a strong incentive to build on their land, as they would be taxed for it regardless. These efficiency gains are part of the reason that the land value tax has garnered near unanimous support from mainstream economists.

“Roads are made, streets are made, services are improved, electric light turns night day,” Winston Churchill wrote, “and all the while the landlord sits still.” The current tax system allows a small number of landowners to reap large windfall gains from public

68 Ruddick. 2016. “Revealed: housebuilders sitting on 600,000 plots of land.” The Guardian. Accessed November 2017.

infrastructure investment. The LVT aims to provide a greater share of prosperity to the wider community. New transportation systems, for example, raise the value of the neighbouring land—but the owners of that land do not share the burden of costs for their development. The LVT can capture the surplus value by taxing the value of the land around it, reinvesting the gains back into the community.

The CRP therefore delivers on progressive principles. By encouraging new housing development, the LVT eases pressure on local housing markets. New housing supply lowers prices, protecting families from rent-based displacement. And new housing supply diffuses competition between native and non-native residents. Meanwhile, LVT protects the economy against the formation of speculative housing bubbles. By taxing the land irrespective of the structures on top of it, the LVT discourages short-term property speculation and boosts macroeconomic stability.

There have been several cases of LVT implementation. These range from Australia to Estonia, Hong Kong to the US. Pittsburgh, the largest American city to employ the tax, was able to boost government revenue with “no damaging side effects on the urban economy.”⁶⁹ Harrisburg, another city in Pennsylvania, had a similarly positive experience with the policy: from its introduction in 1982, taxable property increased by more than 500 per cent, while vacancy fell by 80 per cent.⁷⁰ Other countries are in the process of shifting toward the LVT today. Australia is currently in the process of shifting toward a simplified LVT. Many states in Australia currently operate a land tax, with diverse regulations about its implementation—in some cases offering exemption to farmers, and in others offering exemption to primary residences. Denmark, meanwhile, has operated a land value tax since 1924, allowing local authorities to decide on local rates to determine local revenues.

The barriers to introducing to the LVT, then, are not technical. As the Mirrlees tax review of the UK concluded in 2010, assessors can make use of triangulation methods to derive land values, basing tax benchmarks on valuations of similar land both near and far away

69 Deitrick, S. 1998. “A Second Chance: Brownfields Redevelopment in Pittsburgh.” University of Pittsburgh.

70 Dye, R. and Richard England. 2010. “Assessing the Theory and Practice of Land Value Taxation.” Lincoln Institute of Land Policy.

from a given plot.⁷¹ Pilot studies in Britain have made similarly optimistic conclusions about the feasibility of LVT implementation. Glasgow found “no insurmountable issues”, while Oxfordshire found LVT “relatively easy to undertake from a practical point of view”.⁷² Recent advances in technology have made the process of measurement and valuation far less painstaking for public authorities, and governments can capitalise on this progress.⁷³

The barriers are instead political—of two types. The first is the conflict between national governments and local governments. The introduction of an LVT at the national level involves some pain: as with any tax reform, those who perceive losses may balk. National governments might therefore hesitate to initiate the CRP if they feel that the gains from new tax revenue will not be theirs. But this barrier is surmountable. National governments can structure the LVT to deliver a percentage of the revenue to the local level, while drawing a percentage of the revenue back to the centre. Or, perhaps more feasibly, national governments devolve the CRP to the municipal or city level, allowing local governments to manage their own balance of pain and gain. In cases like the US, it is cities—rather than central governments—that have introduced the LVT. The UK might learn from their experience.

The second, more fundamental barrier is the homeowner. The spectre of property taxation has long haunted the OECD. In the case of the US, a “permanent tax revolt” initiated by homeowners in the 1970s has made the issue of property taxation practically untouchable.⁷⁴ In the UK, the politics are highly sensitive as well: homeowners with high levels of housing wealth tend to be concentrated in marginal constituencies. The fear of lost votes has successfully suspended property tax reform for nearly three decades. The LVT, in particular, has been slandered as the garden tax, encouraging anxiety among homeowners that they will be forced to sell their gardens. Particular attention has been paid to

71 Mirrlees, James et al. 2011. “The Mirrlees Review.” *Fiscal Studies* Vol. 32 (3).

72 Glasgow City Council. “Consideration and assessment of local taxation model: land value tax.”

73 Yiu, C. 2017. “Technology for the Many.” Tony Blair Institute for Global Change.

74 Martin, I.W., 2008. *The permanent tax revolt: How the property tax transformed American politics*. Stanford University Press.

the class of asset-rich, cash-poor households—primarily homeowning retirees—and their limited ability to shoulder higher property taxation.

These fears can be counter-balanced by a set of complementary tax reforms. The LVT is not meant to be implemented in isolation. Rather, under the CRP, it will replace a range of other taxes—from property taxes like the council tax to development taxes like linkage fees, to acquisition taxes like stamp duty, and finally to commercial taxes like business rates. Such a simplification and modernisation of the tax code offers to draw together a broad coalition of political support.

There is widespread consensus that Britain's council tax, in particular, is in serious need of reform.⁷⁵ Its origins are more accidental than academic: former Prime Minister Margaret Thatcher's poll tax, which levied a tax on each individual adult based on rates determined by their local council, threatened to displace the Conservative Party from government, as a series of poll tax riots swept through the country. On arrival to the premiership, John Major in 1992 introduced the council tax, which was a moderate improvement insofar as it considered households' ability to pay. Since then, however, the tax has been left untouched, even as the housing market has radically transformed. Today, the council tax hits hardest among lower-income citizens, in part because it is based on property evaluations conducted by Major's government nearly three decades ago.⁷⁶ An LVT would shift the burden of taxation up the income scale by updating the tax code to reflect recent gains in property value.

Policymakers have a variety of strategies to mitigate the pain from this shift. One strategy involves the design of the LVT. Policymakers choose the percentage at which they will tax the land, and policymakers choose the exemptions that they make from its application. A high rate of LVT can maximise tax revenue and reduce land speculation drastically. An LVT tax of 5 per cent LVT would raise £92 billion each year—three times the council tax revenue. The new revenues would not only be able to fund large-scale investment

75 See Pickford, J. 2017. "Time to sound the horn for council tax reform." *Financial Times*. Accessed November 2017.

76 Adam, S. and James Browne. 2012. "Reforming Council Tax Benefit." Institute for Fiscal Studies.

in housing construction; it could also enable a major infrastructure programme to stimulate economic growth and job creation on a much larger scale.

A lower rate of LVT, meanwhile, can keep the tax burden neutral, or allow homeowners to deduct land levies from their income tax. In the Australian case, some states exempt primary residences from the tax, reserving high rates for vacant properties and second homes. In those cases, the LVT acts more as a vacancy tax, encouraging efficient use without increasing tax burden for middle-class homeowners.

Another strategy involves implementation. The LVT can be phased in over a five- or ten-year period, replacing property taxes piece by piece. Another possibility, targeted specifically at asset-rich and cash-poor households, allows homeowners to defer LVT payment until the point of death or sale, at which time the LVT would be phased in permanently.⁷⁷

The flexibility of the LVT—and the broader Community Reinvestment Programme—suggests its feasibility. Property-tax reform is long overdue. In cities across the OECD, landowners have reaped massive windfall gains from housing shortages, on the one hand, and public investment in infrastructure, on the other. The LVT attacks the housing crisis at its root, shifting the market away from speculation and towards provision. Middle-class homeowners need not fall in its crosshairs: the devil of the LVT, as with all taxes, lies in its details. Yet policymakers must recognise that substantive housing reform will not be politically painless. The CRP provides one efficient and equitable way of easing that pain, while setting the housing market back onto the right track.

Rezoning: Up, Out and In

While the LVT sets up the incentives for new housing development, an ambitious rezoning programme unlocks the land on which to build it. This programme draws together three reforms in the designation of development rights and obligations. Firstly, it reduces restrictions on density to increase efficiency of land use: ‘up-zoning’. Secondly, it extends development rights into undeveloped areas to expand housing production: ‘out-zoning’. And

⁷⁷ See Andy Wightman. 2013. “A Land Value Tax for England.”

thirdly, it mandates affordable housing provision in these unlocked areas: inclusionary, or ‘in-zoning’. Together, these reforms aim not only to encourage private-sector led housing development but also to guarantee the right kind of housing development.

The supply shortage in Anglo-Saxon countries is severe. A recent UK parliamentary committee concluded that England will need 300,000 new homes a year to resolve the housing crisis.⁷⁸ In tight markets in the US, the figures are similar. California, for example, will need 180,000 new homes each year but is only constructing 80,000.⁷⁹ In addition to enabling public authorities to build new social housing, there are reforms that can encourage private sector-led development to ease the housing shortage.

There are two regulatory barriers to housing supply: one upward and one outward. In many cities suffering from housing shortages, strict zoning laws prevent high-rise construction to preserve a historical skyline. London, for example, is “one of the least dense megacities in the world”.⁸⁰ Some housing advocates oppose density on the basis of social disadvantages such as isolation. But the evidence does not support these concerns: research suggests instead that “density does not, of itself, account for positive or negative attributes of particular urban areas”.⁸¹ New rules, requirements and incentives can push private developers towards increasing density in new-build projects. Building up will ease pressure on local housing markets, lowering prices in the process.

Restrictions on urban expansion pose an even greater challenge to robust housing provision. In the UK, environmental protections currently protect large swathes of undeveloped land. These green belts cover 150 per cent more land in England than all cities and towns put together.⁸² In many cases, green belt land deserves these protections: the land is fertile, scenic and easily categorised

78 Economic Affairs Committee. 2016. “Building more homes.” UK Parliament.

79 California Department of Housing and Community Development. 2017. California Housing Future: Challenges and Opportunities.

80 See Professor Ricky Burdett (LSE). As quoted in Papadopoulos, 2016. “London record population of 8.6m will not cramp style.” City A.M.

81 Burdett, R., Travers, T., Czischke, D., Rode, P. and Moser, B., 2004. Density and urban neighbourhoods in London: detailed report (No. 13970). London School of Economics and Political Science, LSE Library.

82 London First. 2015. “The Green Belt: A Place for Londonders?”

as part of the national heritage. Yet in many others, the green belt protects low-quality land from a more efficient use. In the case of the Metropolitan Green Belt surrounding London, protections against development have actually expanded, despite the increasing pressure on the city's housing market—a form of green sprawl.⁸³ There is broad recognition that this must change, based on “overwhelming empirical evidence that the planning restrictions have a substantial impact on housing costs”.⁸⁴ Rezoning these environmental territories is necessary to achieve the progressive principles of security and stability in the housing market.

A third component of this reform programme ensures that private sector-led development is inclusive. Over the last two decades, private developers have failed to deliver affordable units to the private housing market. Section 106 agreements between developers and the local council, which determine planning permission based on an evaluation of the project, have allowed new-build projects to skirt affordable unit production. Developers can dodge local regulations on affordable housing by providing a feasibility assessment that demonstrates a significant incursion of sub-market rentals on the company's profit margins. A small cottage industry has grown to supply such assessments to developers. The number of required social-rent units at the Heygate Estate, for example, fell from more than 1,000 to just 74 after the private developers in charge of its renovation filed a feasibility report.⁸⁵

New regulations about affordable housing provision can guarantee that lower-income residents are not excluded from these development projects. Inclusionary zoning establishes hard quotas for new projects to sell or rent at sub-market price benchmarks. In return, developers receive a density bonus that allows them to build over and above local regulatory limits. The trade serves to guide the private market away from a dominant focus on luxury housing

83 Manns, J., Hunter, A., Matthews, A., Prady, R., Turner, B. and Young, W., 2014. Green sprawl: Our current affection for a preservation myth?. London Society.

84 Niemietz, K., 2012. Abundance of land, shortage of housing. Institute of Economic Affairs Discussion Paper, (38).

85 Wainwright, O. 2015. “Revealed: how developers exploit flawed planning system to minimise affordable housing.” The Guardian. Accessed November 2017.

production and towards a mixed provision that can serve all income bands together. Such mixed provision protects communities from price-based displacement and encourages neighbourhood engagement in the process.⁸⁶

Many cities have designed systems to achieve ‘Goldilocks’ density, balancing the need to grow both upwards and outwards. These include creating a unified development code, a tiered system introduced in US states like North Carolina and Texas that scale between rural zones with high levels of environmental protections to compact or downtown zones where cities offer significant density bonuses to increase the efficiency of urban land use.⁸⁷ In many cases, these codes are coupled with mandatory zoning laws. Almost every major metropolitan area in the US—New York, San Francisco, Boston and Washington DC—has legislated inclusionary zoning to ensure that affordable housing provision accompanies private sector-led development. They range in the strictness of their laws: in Washington DC, for example, inclusionary zoning mandates 8 per cent as affordable, while San Francisco mandates 15 per cent. Yet there is no evidence in any of these housing markets that there has been a negative impact on housing starts to reduce supply over the short, medium or long term.⁸⁸

Again, then, the challenge of rezoning is not a technical one. Rather, zoning reform faces political challenges from a range of housing activists critical of housing production and perceived negative side effects. On one side, not-in-my-backyard (NIMBY) activists form a powerful political lobby that can dispatch new projects in their infancy. On the other side, anti-gentrification activists are sceptical of any new housing developments that might displace existing residents. Both sides express legitimate concerns about the housing market and its potential to incur on the well-being of households and the communities they form. But in the context of the ongoing housing crisis, progressive housing policymakers must find a palatable way to challenge this attachment to the status quo.

86 Jane Jacobs

87 See Durham, North Carolina. 2006. Unified Development Ordinance.

88 Furman Center. “The Effects of Inclusionary Zoning on Local Housing Markets.” New York University.

There is growing, if tempered, support for green-belt reform in Britain. The current UK government has simultaneously encouraged city councils to develop into their green belts and described them as “absolutely sacrosanct”.⁸⁹ The ambitious rezoning programme described here could assuage the anxieties of groups like the Campaign to Protect Rural England by establishing a clear set of rules to govern green-belt development, reclassifying areas of the green belt to designate both their quality and their capacity to enable efficient housing production.

The concerns about displacement are more substantial. The benefits of regeneration are broad: London’s regenerated estates have double the amount of housing capacity and a much higher quality of stock and services.⁹⁰ However, recent research on estate regeneration has demonstrated sustained negative consequences for existing tenants, particularly low-income tenants. These range from delayed time lines to poor maintenance, all of which have undermined tenant security and community.⁹¹ Residents caught in the regeneration schemes leading up to the 2012 Olympic Games, in particular, felt aggrieved by a sense of forced displacement, which disrupted their communities and displaced them from their neighbourhoods.⁹²

Rezoning efforts in the progressive policy paradigm must therefore address these concerns. There is a wide range of methods to do so, from ensuring a right to return for residents ensnared in the regeneration process to establishing clear and democratic processes for voicing community dissent. Regeneration at the Rayners Lane Estate in the London borough of Harrow, for example, improved both the quality of the housing stock and residents’ views of their community. Coupled together, an ambitious up-, out- and

89 Sajid Javid. House of Commons. 27 July 2016. “The green belt is absolutely sacrosanct...The green belt remains special. Unless there are very exceptional circumstances, we should not be carrying out any development on it.”

90 Johnson, D. et al. “Knock it Down or Do it up? The challenge of estate regeneration.” London Assembly.

91 Belotti, A. 2016. “Estate Regeneration and Community Impacts.” LSE Housing & Communities.

92 Watt, P., 2013. ‘It’s not for us’ Regeneration, the 2012 Olympics and the gentrification of East London. *City*, 17(1), pp.99-118.

in-zoning process can both integrate new residents into the housing market and offer security to those already living in it.

Sovereign Property Fund

A sovereign property fund (SPF) is a national endowment that supports property acquisition by local councils for the express purpose of housing construction and rehabilitation. Several cities across Europe and North America already engage in the practice of public land banking, reclaiming underused property and redirecting it towards community use. The SPF scales up these local initiatives to the national level, stabilising the housing market by steering it towards productive, rather than speculative, ends. The goal of the SPF is not to nationalise land. Rather, it is to find the right balance between public and private in the housing market of the 21st century.

The SPF provides the most direct route out of the housing crisis by financing affordable housing provision. Over the last three decades, housing policy has encouraged a sweeping privatisation of land ownership and housing production. In the US today, the public option is virtually off the table completely: public housing has become synonymous with crime and mismanagement.⁹³

The British case is no less extreme, unfolding in a two-part sequence. Firstly, the right to buy, introduced in 1980, set up a fire sale of council homes to existing tenants, liquidating social housing stock at a fraction of their market value. Secondly, austerity reforms since 2010 have severely limited the amount that councils can borrow to finance social housing construction. As a result of this policy sequence, social housing in Britain fell from over 30 per cent of total housing stock in 1980 to roughly 7 per cent in 2015.⁹⁴

Private developers have not picked up the slack. On the contrary, several private land banks hold onto sites with planning permission and often fail to build on them. As of 2014, 25 per cent of all sites with planning permission were owned by companies that did not actually build homes.⁹⁵ Many of these sites are owned by

93 Jencks, C. and Peterson, P.E. eds., 2001. *The urban underclass*. Brookings Institution Press.

94 Office of National Statistics. 2017. *Live tables on dwelling stock*.

95 Mayor of London. 2014. "Barriers to Housing Delivery." Greater London Authority.

international investment firms, with little connection to the communities that surround their properties. All told, as a recent UK Parliament Economic Affairs Committee concluded, “the private sector alone cannot deliver” the housing Britain needs.⁹⁶ These supply-side failures have played a fundamental role in raising housing costs and reducing mobility across the country.

The SPF encourages housing development in three ways. Firstly, it extends credit lines to capital-starved local governments that are eager to build but lack the funding to do so.

Secondly, it centralises oversight of all the land in public ownership. In cases like the UK, public authorities are in possession of substantial amounts of land, but ownership is distributed across several different public agencies—transport authorities, for example, or the National Health Service (NHS). Governance of this land is therefore fragmented, and much of the land goes undeveloped. The SPF coordinates land use across these agencies to identify undeveloped plots and plan new housing projects on them.

Finally, coupled with expanded rights to enact compulsory purchase, the SPF would enable councils to reclaim and rehabilitate existing stock in depressed housing markets. Many regions continue to suffer from high levels of abandonment and vacancy. The SPF supports councils to address this problem head-on. As such, the SPF is more than a supply-side corrective: it is a development programme, reviving property markets that the private sector has deemed unprofitable.

One key advantage of the SPF model is that it can deliver not only new units but also the right kind of units. By keeping rent at affordable levels, public authorities can directly address the affordability crisis that has lowered living standards across the OECD.

The development of an SPF does not require a sea change in housing policy. On the contrary, the UK currently operates a form of the SPF—but with inverse incentives. Councils today can access cheap finance from the Public Works Loan Board, an arm of the Treasury, to purchase commercial property. In recent years,

96 Lord Hollick. Chairman, Economic Affairs Committee. July 2016.

councils across Britain have aggressively acquired commercial property, leading some to worry about a council “credit bubble”.⁹⁷ These cheap loans, however, do not apply to housing projects, which remain subject to strict limits on borrowing. The result is that councils have ended up playing the property market much like a speculative property developer—without doing anything to address the housing crisis at hand. A shift from speculation to a housing-driven SPF offers both to reduce risk and increase productivity of councils’ property investments by directing them towards housing provision.

In several other countries, similar schemes have been crucial to managing the housing market and guaranteeing quality provision. South Korea manages a large national bank that is involved in half of residential housing production. The result has been a reduction in housing costs of 38 per cent from 1995 to 2013.⁹⁸ In the US, several states have developed public land banks to revitalise local housing markets struggling with dereliction. These initiatives have been shown to reduce crime and increase investment in so-called problem property areas.⁹⁹

The chief obstacle to the SPF, then, is the initial investment. In the US, the prospects for a federal land banking initiative are slim in the short term, with the budget of the Department of Housing and Urban Development on the chopping block. The prospects for the SPF are brighter in Britain. There is broad political appetite for boosting social housing production in the UK. Social housing programmes appeared in party manifestos of all partisan stripes in the 2017 general election.

Meanwhile, there are existing programmes that provide a template for the SPF. One Public Estate (OPE) is a national programme shared between the Local Government Association and the Cabinet Office Government Property Unit. In August 2017, the government announced a £54 million package at OPE to support

97 Plender J. 2017. “UK public finance: councils build a credit bubble.” *Financial Times*. Accessed November 2017.

98 Kaganova, O. 2011. “International Experiences on Government Land Development Companies: What Can Be Learned?” *Urban Institute Center on International Development and Governance*.

99 Payton, H., and T. Abdelazim. 2014. “Take it to the Bank.” *Center for Community Progress*.

local councils to “deliver ambitious property-focused programmes”.¹⁰⁰ The SPF might simply expand this endowment, which could be financed by the increase in tax revenue generated by the LVT or by the £50 billion that Communities Secretary Sajid Javid has recommended the government to borrow.

Even in the absence of LVT, though, the SPF does not imply a large rise in debt expenditure. Like the council housing campaigns of the postwar period, SPF supports councils to make investments in local housing production that can continue to finance themselves. SPF investment is therefore long term: a percentage of the rents that accrue to the council are directed back to the fund to repay the initial loan. While Chancellor of the Exchequer Philip Hammond is right to suggest that there is no “silver bullet” to the housing crisis, redirecting some of the £8 billion that he pledged to private developers to support the SPF could provide the source of funding for those initial loans. So would the £3 billion Hammond lost to the stamp-duty cut, which will only serve to reduce the affordability of UK housing even further. In short, the development of a new SPF will not be fiscally painless in the short term, but it will be worth it in the long term, setting the housing market on more sustainable ground, reclaiming domestic property for the public good.

Rapid Transit Network

The Rapid Transit Network (RTN) is an ambitious infrastructure programme that connects central urban districts to peripheral zones through a combination of rail, bus and bicycle networks. Housing policies often suffer from acute myopia: programmes are focused exclusively on existing residents of large, global cities. To correct this vision, policies should not only plan for the necessary expansion of those global cities. They should also address the knock-on effects of urban house-price inflation on citizens living outside them. The development of RTNs offers to expand both the geographical and the temporal dimensions of housing policy.

Effective transit systems address the anxieties engendered by the housing market. Firstly, they diffuse demand for property across a much wider geographical region, reducing pressure on central properties and reducing housing costs along the way. High house

¹⁰⁰ See Local Government Association, Open Public Estate.

prices have pushed workers into longer and longer commutes, with both economic and social costs. Commuters have higher rates of mortality,¹⁰¹ divorce¹⁰² and unemployment.¹⁰³ Recent years have seen the rise of supercommuters, who spend longer than 90 minutes each day in commute. But these commutes are not only costly in time: in many cities across the US, in particular, transportation expenditure accounts for nearly a third of all household income.¹⁰⁴ The RTN connects these workers more effectively to the areas of concentrated employment, reducing commute times and improving the attractiveness of peripheral residential zones.

By doing so, the RTN increases economic opportunity for the left-behind population of the new economy. This is the second way that RTN addresses voters' anxieties: effective transit serves to integrate regions that have drifted to the economic periphery in the transition to a post-industrial economy. Many of the benefits of this new system are economic. RTN can bring rural workers into the city, where they gain access to jobs and education unavailable in the countryside. But the benefits are also cultural: exposure to these urban environments—much more demographically heterogeneous—can ameliorate the sense of social dislocation that has spread across rural regions in Europe and North America.

Finally, the RTN curbs economic anxiety by spurring economic growth more broadly. Over the last half-century, infrastructure in the UK and the US, in particular, has deteriorated as public investment has declined. Britain's infrastructure ranking fell from 19th in 2006 to 24th in 2016.¹⁰⁵ Meanwhile, the American Society of Civil Engineers has argued that low-quality infrastructure in the

101 Sandow, E., Westerlund, O. and Lindgren, U., 2014. Is your commute killing you? On the mortality risks of long-distance commuting. *Environment and planning A*, 46(6), pp.1496-1516.

102 Sandow, E., 2014. Til work do us part: the social fallacy of long-distance commuting. *Urban Studies*, 51(3), pp.526-543.

103 Andersson, F., John C. Haltiwanger, Mark J. Kutzbach, Henry O. Pollakowski, and Daniel H. Weinberg. 2014. "Job Displacement and Duration of Joblessness: The Role of Spatial Mismatch," National Bureau of Economic Research Working Paper 20066.

104 Hickey, R. and Jeffrey Lubell. 2012. "Losing Ground: The Struggle of Moderate-Income Households to Afford the Rising Cost of Housing and Transportation." Center for Housing.

105 Global Competitiveness Report. 2016. World Economic Forum.

US “has a cascading impact” on “productivity, gross domestic product, employment, personal income and international competitiveness”.¹⁰⁶ RTN offers both to revitalise the economy and to deliver millions of jobs along the way, simultaneously reducing housing costs and improving economic performance. As Chris Yiu pointed out in his recent report, such innovations could “clear the way for a radical reimagining of our cities and a major improvement in quality of life for their residents”.¹⁰⁷

Cases of the RTN abound—from Madrid’s extensive system of urban-to-suburban rail services to Seoul’s 987-kilometre metro connecting disparate swathes across 18 lines. London is not far behind. Projects like Crossrail have the potential to transform the city in a way that both increases access from the periphery to the centre and, in the reverse, makes those peripheral zones more attractive to live in. However, the vast majority of this infrastructure spending is directed towards global cities that are already epicentres of economic activity in their countries. The progressive vision for the RTN at the national level must address the housing question not only in areas with the highest housing costs but also in areas with depressed housing markets that require economic stimulus.

Political parties across the OECD and across the political spectrum agree on the urgency of infrastructure investment. The challenges to its implementation are twofold: financial and political.

Financially, infrastructure is expensive. In the UK, a successful RTN would require rolling back the programme of fiscal austerity introduced after the financial crisis, which would involve shifting the norms and expectations of government expenditure. This is already beginning to happen: the Housing Infrastructure Fund announced in November 2016 plans to inject £2.3 billion into housing markets that need new roads, Internet and other street-level improvements. An ambitious RTN will expand on these initial efforts.

Politically, investment in the RTN confronts obstacles because of its medium- to long-term impact. Political myopia often prioritises high-visibility projects like Crossrail that deliver concentrated gains

106 ASCE. 2017. Infrastructure Report Card.

107 Yiu, C. 2017. “Technology for the Many.” Tony Blair Institute for Global Change.

over short-term timescales. RTN will require a much more forward-looking commitment to expanding transit systems in ways both small and big—from potholes to high-speed trains.

Renewing the Renters' Social Contract

It is time to renew the social contract with rental-sector tenants. Tenants suffer higher levels of exclusion in almost every domain of civic life: social, cultural, financial and material.¹⁰⁸ These disadvantages flow in part from their disenfranchisement in the rental arrangement, subject to price hikes, evictions and dislocation from tenancy to tenancy.

A new social contract consists of three components. Firstly, it extends the standard minimum tenancy to three years. Secondly, it limits rental inflation over the course of this contract to the consumer price index. Thirdly, it lends stronger protections from unwarranted eviction.

The implementation of these protections is particularly urgent in the UK. Britain has one of the most liberalised rental sectors in the developed world. In England, landlords—or, more often, letting agents—set rent levels at the maximum that the market will accommodate. Contracts have no minimum length, often set to six or 12 months, after which the landlord can raise rents or remove tenants at will. And under Section 21 of the 1988 Housing Act, landlords can evict tenants on two months' notice without any legal recourse for the tenant. Under depressed market conditions, such a strong set of landlord rights might encourage investment in the rental sector without harming tenants on the other end. However, the recent boom in property prices has encouraged landlords to make use of their strong bargaining position to drive rental-price inflation. Most landlords in the UK only offer tenants assured shorthold tenancies (ASTs), which last just six or 12 months. Meanwhile, the use of Section 21 evictions has reached a record high—even as tenant arrears have fallen.¹⁰⁹

108 Barnes, M., A. Blom, K. Cox, and C. Lessof. 2006. *The social exclusion of older people: Evidence from the first wave of the English Longitudinal Study of Ageing (ELSA)*, Final report. London: SEU/OPDM.

109 Savage, M. 2017. "100 tenants a day lose homes as rising rents and benefit freeze hit." *The Observer*.

The US is not far behind. Rent across the country has soared by over 70 per cent in the last two decades. A fall in housing affordability has meant a rise in evictions. The American Housing Survey reports that nearly 3 million households expect imminent eviction. Very little data is collected on how many of them actually face eviction in the end, as landlords rely on a range of informal and semi-legal practices to reclaim their properties from tenants. The lack of protections for American tenants has driven down renters' living standards and driven up their anxiety about their futures.

A new social contract is, then, necessary to shift this balance of power. This new set of regulations would not place a harsh set of rent controls on the rental sector: there is consistent evidence that rent controls reduce levels of housing investment and repair.¹¹⁰ But by limiting rent inflation across three years of a tenancy, the new social contract both allows for broad fluctuations in rental prices across the housing market and protects individual tenants against displacement.

The advantages of the new social contract do not only flow to renters. These regulations are a win-win for both tenants and their landlords.¹¹¹ A longer minimum tenancy provides a more secure form of income to landlords over a longer period of time. Contracts might include a break clause—allowing tenants and landlords to agree to end the tenancy early, thereby building greater flexibility into the contract—but the standard minimum structures the tenancy to guarantee stable rental income.

There is a variety of implementation strategies for these protections. One is by fiat: national regulators simply mandate these protections and expect landlords to adjust their practices accordingly—liberalisation in reverse. Another is more gradual, relying on a carrot-and-stick method. On the one hand, as advocacy groups like Shelter have recommended, landlords who offer only minimum-length ASTs should face a higher tax burden. On the other hand, landlords who shift towards maximum-length, rent-regulated contracts would receive tax benefits. Over time,

110 Paul Krugman loves to cite the 1992 poll of the American Economic Association, in which 93 of percent of AEA members agreed that 'a ceiling on rents reduces the quality and quantity of housing.'

111 De Santos, Robbie. 2012. "A better deal: towards more stable renting." Shelter.

displacement would fall as landlords shift towards these more stable contracts.

Many countries across the developed world offer a stronger set of rights to tenants in the rental sector. There is a broad range. To one side is Germany, where there is no maximum length of tenancy, with most extending indefinitely. Evictions in Germany are extremely difficult, regardless of anti-social behaviour among existing tenants.¹¹² French protections are more moderate: tenancies tend to last three years, with rent inflation limited by a national rental index constructed by the central government. Landlords in France can evict their tenants on the basis of rent arrears. Such protections are similar in Ireland, which recently mandated tenancy lengths of three and a half years, following a six-month probationary period.

All three countries, though, have booming rental sectors, with buy-to-let expanding rapidly in the Irish case in particular. Such tenant protections, in other words, vary in their effectiveness—Germany’s recent experiment with a rental brake proved incapable of moderating rent inflation—but in no case do they appear to have pushed the rental sector beyond profitability and prevented investment in turn.

The possibility of introducing new tenant protections has garnered widespread support, particularly in Britain. According to a recent poll, only 7 per cent of Britons oppose a hard rent cap.¹¹³ Meanwhile, roughly 70 per cent of all renters support longer tenancies.¹¹⁴ The Residential Landlords Association, the largest landlord peak organisation in Britain, also “recognises the need for longer term tenancies”.¹¹⁵ In Britain, as in so many other countries across Europe and North America, the need for these protections will only intensify: as house prices continue to inflate, the rental sector will begin to age, as fewer adults transition to

112 Davies, B. et al. 2017. “Lessons from Germany.” IPPR.

113 Figures from Survation poll conducted in January 2015 and cited in Stone, J., “Almost nobody in the UK is opposed to rent controls for housing.” *The Independent*. Accessed November 2017.

114 Bibby, J. 2015. “Facts are facts. 7 in 10 renters want longer tenancies.” Shelter.

115 Residential Landlords Association. “Longer Term Tenancies – A Consultation.”

homeownership. More than young people, families require tenure security and long-term stability. A new social contract is a necessary, if insufficient, component of any progressive housing platform that aims to ease anxiety and promote security for the rental-sector population.

CONCLUSION

The dominant housing policy paradigm is in decline. Evidence of its shortcomings is everywhere. Across the OECD, house prices are soaring, engendering a crisis of living standards among renters and endangering urban economies with the risk of a real-estate bubble. As this crisis deepens, the cry for housing reform grows louder.

This report has argued that the standard prescriptions for the housing problem are based on a misdiagnosis. It is a common observation today that the housing crisis is a simple equation of supply and demand. It follows from this formulation that governments should simply encourage housing production, and the markets will correct. This policy approach mistakes the symptom for the disease: rather than addressing the underlying causes of the housing crisis, it applies public resources to paper over it.

The poor performance of these short-term solutions has harmful knock-on effects on politics. This report outlined the key links between recent dynamics in the housing market and the dimensions of democratic dysfunction. Among these is the rise of a class of homeownership winners that remains deeply resistant to housing policy reform—for good reason. Over the last two decades, they have come to rely on their homes as a nest egg for retirement, and radical housing reform threatens this source of financial security. Yet the strength of the homeownership constituency has hardened taboos about policies like property taxation that will be necessary to set the housing market on a more sustainable track.

This report aimed to break those taboos to develop a new progressive vision for housing policy. The vision builds from core progressive principles: ensuring security, building community and maintaining stability. These principles openly acknowledge the ways in which housing policy involves trade-offs—and that the role of the policymaker is to mitigate them. To that end, this report set out five policies that are geared towards all contexts struggling with housing provision. Some of these proposals are fairly well established in the policy arena: the land-value tax, for example, has many advocates in the UK, although the conversation about LVT is less developed in other parts of Europe and North America. Other proposals, like the sovereign property fund, offer a new set of tools for forward-

thinking policymakers. Still others hope to draw attention to the close ties between the housing crisis and more distant arenas of policymaking, like transport and infrastructure.

Our Institute will be developing this policy vision in greater depth, opening a broad and international conversation about housing best practice. Our goal is to speak openly and honestly about the trade-offs inherent to housing markets—to acknowledge, in other words, the politics of housing, not just the policy.

Please let us know what you think to these proposals either by e-mailing us at YourViews@Institute.Global (<mailto:YourViews@Institute.Global>) or by joining the discussion on Twitter via the hashtag #TBIhousing (<https://twitter.com/search?f=tweets&q=%23tbihousing>).

Housing is the source of economic anxiety, social resentment and political frustration. Many governments are caught between the competing interests of different housing tenures, resulting in timid policy that tinkers at the edge of the housing market. Only a bold, open and honest discussion of the politics—not just the policy—of housing can move towards a housing market that works for the many, not the few.

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