From Rent to Own

How to restore home ownership by turning private tenants into owners

By Alex Morton

About the CPS

The Centre for Policy Studies is the home of the next generation of conservative thinking. Its mission is to develop policies that widen enterprise, ownership and opportunity, with a particular focus on its core priorities of housing, tax, business and welfare.

Founded in 1974 by Sir Keith Joseph and Margaret Thatcher, it is primarily responsible for developing a host of successful policies, including the raising of the personal allowance, the Enterprise Allowance, the ISA, transferable pensions, synthetic phonics, free ports and the bulk of the Thatcher reform agenda.

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Executive Summary

The housing crisis is one of the great public policy challenges of our age – to the point where the Prime Minister has called it her 'personal mission' to reverse the fall in home ownership, which is condemning 'Generation Rent' to a less stable, less happy and less prosperous future.

To tackle this problem, Britain certainly needs to build more homes – but the problem is not just about supply, but distribution. Britain is often portrayed as a country of high home ownership. In fact, across the EU28, we have the fourth lowest rate. In recent decades, owner-occupation rates have plummeted – especially among the young and those on average incomes, falling from two-thirds for the average earner aged 25-34 in 1995-6 to just a quarter today. In short, we do not just need to build more houses, but create more homeowners.

The state should, therefore, support ownership where possible. Yet in recent decades, the state has instead made it harder. The fall in owner-occupation was accelerated by a series of decisions by Tony Blair and Gordon Brown's Governments: scrapping pension dividend relief and allowing interest deductibility for landlords but not owners, and pushing buy-to-let. In addition, the tightening of mortgage eligibility in the wake of the financial crisis, and the boom in asset prices (and in particular property prices), means many renters have higher incomes than those buying, but are locked out of the market as they cannot afford a deposit.

Theresa May and David Cameron's Governments have attempted to redress the balance, for example via increased charges on buy-to-let landlords in terms of mortgage interest and stamp duty. Some are now calling for landlords to be punished further, describing them as a new breed of rentiers. But it is not only unfair to attack people who have made perfectly rational investment decisions, but misguided. For all the talk of 'fat cat landlords', most see only a moderate return on their investment – two-thirds have a yield of 5% or less, in return for an uncertain and fluctuating income that can be put at risk by unreasonable tenants.

Back in the 1980s, Margaret Thatcher's Government – inspired by the work of the Centre for Policy Studies and others – delivered mass ownership to council house tenants via the Right to Buy. Yet today, the pattern of ownership has changed: the rise of buy-to-let means that there are more frustrated would-be homeowners in the private rental sector than in social housing.

If we are to restore mass home ownership, we therefore need – alongside measures for those who rent from the state – a way to incentivise landlords to sell and help private renters to buy, to turn Generation Rent into Generation Own.

THE CORE IDEA – CAPITAL GAINS TAX REBATES TO MOVE PRIVATE RENTERS INTO OWNERSHIP

We propose a scheme called Help to Own. This would turn the Capital Gains Tax payable by a landlord on sale of a rented home into a rebate shared between landlord and tenant (or tenants). The former would get a powerful incentive to sell. The latter would get substantial help towards a 10% deposit so that they can purchase the home – either outright or via shared ownership.

There are obviously many different ways of structuring such a scheme. You need to ensure that landlords have a sufficient incentive to sell, and that tenants receive enough help to be able to afford to buy. You need to ensure that property price appreciation has been significant enough to generate the sums necessary to make such a rebate attractive. And you need to work out how to make such a system work for all landlords and tenants – not least by offering further help to those would-be buyers whose landlords refuse to sell.

In an early draft of this paper, we calculated that a 25%/75% split of the rebate between landlord and tenant would provide enough to pay for a 7% deposit for the tenant if they contributed the remaining 3%. Following consultation with stakeholders, we have adjusted our proposal to a 33%/66% split: landlords would receive a third of the CGT rebate, with tenants getting up to 66% of the remainder up to a limit of 6.66% of the property's value, as long as they contributed 3.33%. This is a similar split to the original Right to Buy scheme in the 1980s and gives tenants a 10% deposit so they can move into ownership.

We also suggest, for landlords who only own one property, that their rebate is topped up with a flat figure of £3,000 in order to provide the strongest possible incentive to sell. In order to ensure high take-up, we propose that the scheme operate for a single year, from 2020/1, to give people time to save for their share of the deposits. And in order to ensure fairness, the amount that any tenant or landlord could receive per property would be capped at £35,000.

A crucial element of our proposal is that it would be offered, first and foremost, to sitting tenants – as defined at the point at which the scheme was announced, in order to prevent landlords from turfing people out of their homes to make way for their own family or friends. If the tenant or tenants did not want to take part, they would be free to nominate another first-time buyer. If they did not, the landlord would be free to strike a deal with any other first-time buyer – potentially with priority given to those whose own landlords are reluctant to sell, who would also be placed first in the queue for shared ownership schemes.

We also suggest an online exchange system under which tenants who do not want to buy the specific home they are renting could either swap directly with another tenant that they know, or find a more suitable property via an online marketplace.

As a package, this policy would have the following benefits:

For tenants this would be a fantastic offer. They could put in £1 in savings and end up with £3 in total in order to move into ownership. This would mean, for an average UK property, that they would put in roughly £7,000 to receive a £14,000 top-up – enough for a 10% stake. Those who could not afford the whole property (for example those living in London) would be able to buy the majority of it under a shared ownership system.

A fair deal for landlords: For an average property, the taxable gain in value is now £87,263. A single landlord would get a CGT rebate of around £7,000, compared with an original tax bill of £21,000 or so - or closer to £10,000 if the suggested £3,000 top-up were applied. A landlord selling five such properties would get a CGT rebate of nearly £40,000 on a tax bill of just under £120,000[†]. Landlords would also avoid many of the costs associated with selling a home, such as estate agent fees, which for an average property would be over £4,000, and the costs of a void period (since surveys show landlords usually prefer to sell an empty property).

Promotion of shared ownership: By capping the value of the rebate to both tenants and landlords at £35,000 per property, and reducing the relief for those with large property portfolios, we would raise between £1 and £2.5 billion. This could be put towards a significant shared ownership scheme for those tenants who would like to take part in the Help to Own scheme but whose landlord does not want to – helping between 120,000 and 300,000 more people into ownership.

No cost to Government: Far from costing money to Government, this policy would be revenue-neutral – even without the caps. The CGT to pay for the policy would come from transactions that would otherwise barely exist: currently, just 2% or so of landlords sell up each year, raising around £1.5 billion a year. Furthermore, any losses to the Treasury – real or hypothetical – will be offset by the savings in housing benefit from reducing the numbers of renters, both in terms of immediate costs and the longer-term burden of subsidising pensioners who have never been able to afford their own home.

A fair scheme for all: We do not believe it would be fair to simply give tenants two thirds of whatever CGT their landlord happens to be liable for. You could end up with one tenant receiving £100, and another on the same street in an identical property receiving £10,000. This would quickly discredit any scheme. The support for each tenant has to be enough to provide a substantial contribution towards the deposit. Under our proposal every tenant would simply receive a £2 top-up for every £1 they put in, until they reach an overall deposit of 10%. The various caps we propose for high-value, high-gain properties would allow cross-subsidy for tenants where properties have not appreciated enough in value to deliver the 6.66% required, ensuring fairness. And those whose landlords do not want to sell would be offered first pick of other ownership schemes.

Promoting owner-occupation: At the heart of this scheme is a desire to change the housing mix by replacing renters with owners. It would therefore only be available to tenants who do not own property elsewhere. And while people could sell their properties on after purchase, covenants would be applied to ensure that any homes transferred would remain in owner-occupation for at least a decade. Those who used this scheme to make a quick buck would also be denied access to future home ownership schemes, such as shared ownership or Help to Buy. This is about helping people get a long-term place on the housing ladder, not make a quick profit.

† Calculated to include the Annual Exempt Amount for a single taxpayer of £11,700.

SHOWING IT WORKS

There is no point proposing such a scheme without also showing that it makes financial sense. For this scheme to work, we need house price appreciation within the private rented sector to have reached the point where 66% of CGT liabilities relief is generally enough to provide a 6.66% deposit. In other words, the capital gain has to be enough that the rebate can support tenants into ownership.

We calculate the necessary price appreciation across the sector at between 60% and 65%. CPS researchers therefore carried out three separate modelling exercises, all of which suggested that capital gains are higher than this:

- An estimate using the growth of the PRS and house price data
- An estimate using private landlord survey data and house price data
- An estimate using capital gains receipts data

The average rate of appreciation in the sector from three separate estimates is more than 70% - meaning that there is a clear buffer between what we need and the appreciation seen. The addition of the £35k caps further lowers the necessary threshold.

In addition, there are two reasons to think that this policy would raise much more than it costs:

- The scheme is biased toward higher value properties – the ones most likely to be put forward are those with high CGT liabilities, which provide greater revenue.
- The areas with the highest gains are the most valuable, meaning the £35,000 caps may actually raise substantially more than the estimate we have (which assumes all properties have risen by the same amount rather than the most valuable ones rising the most).

THE POWER OF OWNERSHIP

There will be those who argue that home ownership does not matter – or that this is simply a handout to young people who should save for their own deposits as their parents did.

But those arguments do not hold water. Polling by the Centre for Policy Studies shows that making housing more affordable is the number one way in which young people think government could make their lives better – and they overwhelmingly want that to be done by making houses cheaper to own, because they overwhelmingly want to own rather than rent.

And it is not just the surge in house prices that has pushed home ownership out of their reach. The changes under Labour described above have represented a cumulative £220 billion shove towards buy-to-let and away from first-time buyers. It is surely time to put the balance right. Wanting to own your own home is the very definition of the right thing. It is the foundation of a good society. It gives people more control of their lives, and of their futures. We need a home ownership revolution – in which we hope this policy can be the first step.

1. Why We Need to Turn Renters into Owners

HOME OWNERSHIP IS IN DECLINE

The housing crisis is arguably the single greatest social policy challenge that Britain faces. The Prime Minister has said that it is her 'personal mission' to reverse the decline in home ownership and bring housing within reach of 'Generation Rent', which has been locked out of the property market by the rapid increase in house prices.[1]

Since the mid-1990s, house prices have risen by 160% in real terms, while young people's incomes have grown by just 23%. This has meant that the ratio of median house prices to median income for 25-34 year olds has more doubled over that period, from four to eight. The consequence has been a collapse in home ownership among the young. Twenty years ago, two thirds of middle-income 25- to 34-year-olds owned their own home. Today, that figure is just a quarter.[2]

At root, there are two problems here. The first is the supply of housing, and the fact that we have, for decades, failed to build enough properties to keep pace with demand. This is an issue that the Centre for Policy Studies has published much work on in the past, and will again in future.

The second, which this report is designed to address, is the distribution of the housing stock, and the way that the state – in particular the Labour governments between 1997 and 2010 – has moved away from supporting home ownership.

Since 1997, the number of households renting in the private sector has risen substantially from 2.1 million to 4.7 million now.[3] These contain around nine million working-age adults[4] (and around 870,000 retired adults).[5] Almost all of these renters are living in properties owned by individuals, rather than being part of a long-term corporate scheme: there are 2.5 million buy-to-let landlords, with the mean number of properties owned running at 1.8.[6]

WHY HOME OWNERSHIP MATTERS

We know that the vast majority of current renters want to own. Only half of renters say they are happy with their standard of living compared to three quarters of owners.[7] Polling shows that ownership gives you a greater sense of freedom and control over your own life, and helps you feel more settled – and that these non-financial elements are actually more important than the financial benefits.

1 'Thousands have saved money already thanks to Government's stamp duty cut', *Downing Street Press Release*, January 2018

2 'The decline of homeownership among young adults', J. Cribb, A. Hood, J. Hoyle, *IFS,* February 2018

3 English Housing Survey Headline Report, 2016-17, Annex Table 1.1, *MHCLG*

4 People in households by housing tenure and combined economic activity status of household members: Table 1, *ONS*, August 2018

5 Calculated based on 8.9 million working age private renters and 8.9% of private renters being over 65, as shown in Table FA3101 (S418): Demographic and economic characteristics of social and privately renting households, 2016-17, *MHCLG*

6 'Number of buy-to-let investors in the UK hits record 2.5 million high', *Property Funds World*, April 2018

7 'Homeowners are happier than renters with their standard of living', *YouGov*, August 2017

In a survey by YouGov for the Council of Mortgage Lenders, respondents were asked about what they perceived to be the main benefits of home ownership. The most common choice was the freedom to 'do what you want', while 'an investment' came bottom of the list.[8] This can perhaps explain why owning is also linked to greater wellbeing and life satisfaction. According to the English Housing Survey, those who own their home outright have an average life satisfaction score of 8 points compared to 7.4 points for private renters.[9]

Academic research has also consistently pointed to a positive link between home ownership and participation in community organisations, political engagement, and social capital in general.[10] Ownership, in short, speaks to a fundamental human instinct – and is a key part of a happy and secure society.

Unfortunately, it is now a myth that the UK is a high ownership society. The UK has the fourth lowest rate of home ownership across the EU28 and a lower rate than non-European nations like Australia, the USA, and Canada.

The need and desire for ownership, in other words, is not a British peculiarity, but a universal human impulse that has been thwarted for many young people, who cannot own, and feel they will never be able to. Polling carried out by YouGov for the Centre for Policy Studies earlier this year found that almost one in five 18- to 24-year-olds thought it would be at least two decades before they could own their own home, and 8% thought they would never be able to afford it. The affordability of housing was also their top priority for government, chosen by 41% as the most immediate way in which the state could improve their own lives: even among the 25-34 age group, only the cost of living scored higher. And overwhelmingly, they wanted the state to prioritise making it easier for people to afford to buy a home, rather than reducing the cost or increasing the security of renting.[15]

Unsurprisingly, the upshot of all this is that that many young people feel they no longer have a stake in society. Telling them that they should learn to love renting instead is patronising and wrong – particularly when many of those lecturing them do so from their owner-occupied homes.

Table 1: Home ownership rates in advanced economies[11]

Country/Area	Home ownership rate (latest available data)
Norway	82.6
Spain	77.8
European Union (average)	69.2
Canada[12]	67.8
Australia[13]	67.0
France	64.9
United States[14]	64.2
United Kingdom	63.4
Germany	51.7

8 'Home ownership or bust? Consumer research into tenure aspirations', *CML*, October 2016

9 English Housing Survey Headline Report, 2016-17 Annex Table 1.22, *MHCLG*

10 For a summary of research findings in this area see: 'Reexamining the Social Benefits of Homeownership after the Housing Crisis', W. Rohe, M. Lindblad, *Joint Center for Housing Studies, Harvard University*, August 2013

11 Figures for EU/EEA countries (including UK) taken from latest available Eurostat data: Distribution of population by tenure status, type of household and income group - EU-SILC survey, 2018

12 Housing in Canada: Key results from the 2016 Census', *Statistics Canada*, October 2017

13 'Housing Occupancy and Costs, 2015-16', *Australian Bureau of Statistics*, October 2017

14 'Quarterly Residential Vacancies and Homeownership, Second Quarter 2018', Table 4, *U.S. Census Bureau*, July 2018

15 *'New Blue: Ideas for a New Generation'*, pp16-18, Centre for Policy Studies, May 2018

HOW BLAIR AND BROWN MADE THINGS WORSE

The first buy-to-let (BTL) mortgage was only created in 1996. Its rapid rise is partly a function of higher house prices, as well as a financial environment in which those with assets sought out investments offering decent returns. But government action made a bad situation worse. Between 1997 and 2010, buy-to-let was made progressively more attractive compared to ownership, and more attractive compared to saving and investing in businesses or other productive activity.

- **Abolition of Mortgage Interest Relief At Source (MIRAS).** This was cut in the first New Labour Budget and finally abolished in full in 1999, the two moves together worth around £2.3 billion a year (costing a cumulative total of £61.9 billion to owner-occupiers, in non-inflation adjusted terms).[16] Most damagingly, this created an imbalance in the treatment between BTL landlords and owner-occupiers with a mortgage.[17] BTL landlords obtained relief on the interest costs of purchasing properties, whereas owner-occupiers did not.

- **Abolition of pension fund dividend tax relief.** This cost pension pots between 1997/8 and 2017/8 a colossal £157 billion (in non-inflation adjusted terms), and substantially discouraged investment in private pensions by removing the relief available on dividend income.[18]

Taken together, the effect of the abolition of MIRAS and pension fund dividend tax relief was a £220 billion shift in incentives that disadvantaged owners and pushed savers to become buy-to-let landlords. Lower interest rates since 2008, and easier credit thanks to monetary stimulus and support for bank lending, compounded this by making it cheaper and easier to invest in property relative to other assets and hurting savers who tried to invest elsewhere, while also freezing out those who were owner-occupiers with small deposits.[19]

In short, while talking a great deal about the need to support the many, Labour ended up creating a situation where ownership was targeted at the few.

The Cameron Government did try to rein in the growth of buy-to-let. In 2015, for example, it announced that landlords would only be able to deduct finance costs at the basic income tax rate of 20%. This means landlords paying at the 40% or 45% rate will shortly see a major increase in their tax liability. The Government estimates that around one in five landlords will lose out from this[20] while a Council of Mortgage Lenders (CML) survey put this at one in four.[21] (It is important to notice that this does not mean that only one in five or one in four landlords are higher rate taxpayers: if the landlord owns the property without a mortgage, this measure will not affect them).

Yet while this might slow the growth of buy-to-let, it does not shift the dial back toward ownership. Low returns elsewhere mean buy-to-let remains a popular form of investment, with around 73,000 new buy-to-let loans issued in the 2017-18 financial year, worth almost £10.5 billion (though balanced by some landlords exiting the market).[22]

16 Policy Measures Database, Tax; All Measures, *OBR*
17 Policy Measures Database, Tax; All Measures, *OBR*
18 Policy Measures Database, Tax; All Measures, *OBR*
19 MLAR Statistics: Detailed Tables, Table 1.22, *FCA*
20 'Restricting finance cost relief for individual landlords', *HMRC*, February 2017
21 'The profile of UK private landlords', K. Scanlon, C. Whitehead, *CML*, December 2016
22 'Mortgage Trends Update, March 2016', Mortgage Trends (Data), *UK Finance*, May 2016

BUY-TO-LET HAS CONTRIBUTED TO HOUSE PRICE INFLATION

The substantial rise in house prices over the last few decades has had a negative impact on those looking to own. But it has encouraged buy-to-let investors because it acts as a signal that prices are likely to continue rising, particularly as they can leverage their ever-increasing equity in one property to purchase another.

Without the impact of the buy-to-let boom on house price inflation, many more people could have been able to purchase their first home over the last decade. One government study in 2008 estimated that buy-to-let demand had increased house prices by 7% relative to where they would otherwise have been.[23] As the ONS's Economic and Labour Market Review stated as far back as 2009: *'New buy-to-let investor demand has offset the effects of falling first time buyer numbers on housing demand, which also prevents affordability constraints from influencing prices.'*[24] Like immigration, lack of supply or low interest rates, buy-to-let is not the silver bullet driving house prices higher – but it is an unhelpful additional factor. (It is worth pointing out that recent polling by ComRes for the Centre for Policy Studies found that, by a margin of 63% to 19%, Britons now think house prices in their area are too high – rising to 79% vs 9% in London.)[25]

BUY-TO-LET REMAINS POPULAR – AND LEGITIMATE

The 2015 Conservative manifesto included a pledge to build a million extra homes and create two million new owner-occupied households.[26] The goal was to reduce the levels of renting, particularly buy-to-let renting, and instead support ownership. To do this, a series of measures were implemented:

- **A 3% stamp duty (SDLT) surcharge for those buying additional properties,** which raised £1.9 billion last year.[27]

- The **changes to mortgage interest relief** mentioned above, which when fully operational would save around £700 million a year.[28]

- **Requiring audited receipts from landlords** in line with other sectors, rather than just deducting a wear and tear allowance, worth around £200 million a year.[29]

The Prudential Regulation Authority, supported privately by the Treasury, also introduced new underwriting requirements in 2017 to tighten the rules on lending to some buy-to-let borrowers, with the aim of reducing lending to this sector.[30] The level of relief being taken away is limited in that roughly 60% of landlord purchases are now made in cash (though often from money is recycled from other property sales).[31]

Despite all this, however, there is still a thriving buy-to-let market – and it is hard to see what more can or should legitimately be done to push buy-to-let landlords to sell in a punitive fashion. The result of Government fiscal and monetary policy, even if pushed by the Bank of England under direction, has been to hammer

23 'Buy-to-let mortgage lending and the impact on UK house prices: a technical report', R. Taylor, *NHPAU*, February 2008
24 'Recent developments in the UK housing market', G. Chamberlain, p35, *Economic and Labour Market Review*, August 2009
25 'CPS Housing Poll, September 2018'
26 The Conservative Party Manifesto 2015
27 Annual Stamp Tax Statistics, 2017-18, Table 3b, *HMRC*, September 2018
28 Policy Measures Database, Tax; All Measures, *OBR*
29 Policy Measures Database, Tax; All Measures, *OBR*
30 Underwriting Standards for Buy-to-Let Mortgage Contracts, PRA, September 2016
31 Monthly Lettings Index January 2017, *Countrywide*, February 2017

savers, including those who simply want a modest return. The reason so many people have become landlords is not because they want to deny homes to the next generation, but because there is a real shortage of alternative investments that can provide a reasonable income for those who have worked hard and saved.

BUY-TO-LET LANDLORDS ARE NOT THE 'FAT CATS' OF CARICATURE

Contrary to media caricatures, most landlords get only moderate returns. The average net yield, according to a survey by the CML, is between 3% and 5%.[32] A much lower 2.6% annual income-only yield was reported by Investment Property Databank (IPD) for institutional investors in UK residential property in 2015.[33]

The figure for landlords obtained in the CML survey is broken down in more detail in the table below. It shows that some 33% of landlords have yields worth 3% or less, 34% have net yields worth 4-5%, 16% have yields at 6-7% and 16% have yields worth more than 8%.

It is important to note that for many, particularly smaller landlords, this yield is likely to be an overestimate as many landlords set the costs of their time at zero. Yields also fluctuate over time. For example, if you own one property and it sits vacant, or you are unlucky enough to end up with a problem tenant, you might go from a comfortable 5% to a zero or even negative yield, on top of the stress this would bring.

Net Yield	Proportion of landlords	Net Yield	Proportion of landlords
0% or less	7%	3% or less	33%
1%	4%		
2%	7%		
3%	15%		
4%	16%	4-5%	34%
5%	18%		
6%	10%	6-7%	16%
7%	6%		
8%	6%	8%+	16%
9%	1%		
10% or more	9%		

(Totals may not sum due to rounding)

32 'The profile of UK private landlords', K. Scanlon, C. Whitehead, *CML*, December 2016

33 'The profile of UK private landlords', p38, K. Scanlon, C. Whitehead, *CML*, December 2016

MOST RENTERS CAN AFFORD MORTGAGES

The costs of renting and owner-occupation are broadly the same. Many of those who are currently tenants could afford to own with no real increase in their housing costs. This has in part been the reason behind the Government's Help to Buy policy.

The problem for those renters is that without the ability to access family wealth or equity, they are unable to purchase a home with a reasonable deposit, which would allow them to start to pay down a mortgage and build up equity.

For example, affordability of homes has fallen for most households as interest rates have fallen. Just before the financial crisis, the cost of the typical repayment mortgage for a median earner would have been close to 25% of their income. By 2017, this would have been well under 20%.[34]

The problem is the deposits – which are excluding even many high-income households from ownership. The 3rd and 4th decile of income for renting households have an average income of £587 and £728 a week, while for home buyers the 7th and 8th deciles have an average income of £577 and £722. What this means is that the richer renting households have the same income as the poorer home-buying households.[35]

What distinguishes those who are locked out of ownership is not the income that they earn but their access to a deposit, which often comes through family money and wealth. Those who are being denied access to ownership are therefore even more frustrated, since their future is being determined not by what they earn or how hard they save – since amassing a substantial deposit while renting is nearly impossible – but whether or not your parents have enough property equity that they can gift you a deposit.

A RADICAL NEW APPROACH IS NEEDED

Over the last two decades, the UK has strongly distorted the housing market. Much of this is down to longer-term causes such as lower interest rates, limited housing supply, tax and other changes that pushed people towards buy-to-let and away from investment in the wider economy. This has left young people locked out of ownership.

Levels of home ownership need to substantially increase. This means that we need to persuade landlords to sell up – given the slow number of new-builds being created compared to the existing stock. After all, even if this country only built homes for ownership, and built 250,000 homes each year, it would take 20 years to match the size of the existing private rented sector's nearly five million homes.

In the long run, it is absolutely necessary to increase the level of housebuilding in this country and return monetary policy to normality. Without this, there is no way that house prices in the long run will gradually fall in real terms. But given the scale of the housing crisis, we also need to do whatever we can to help people move from renting to owning, and give them more control of their lives and their futures.

34 First-time buyers, lending and affordability, Table ML2, UK Finance, August 2017

35 Author's calculation drawing on Family Resources Survey 2016-17, *DWP*. Income net of income related benefits (notably Housing Benefits).

2. Help to Own – The Policy

SHARING CAPITAL GAINS TO HELP GET TENANTS ON THE HOUSING LADDER

As set out in the previous chapter, the British economy has incentivised buy-to-let and discouraged ownership. This is not the fault of individual landlords, but a political class that has made it too hard for people to get on to the property ladder. We need to find a way to turn tenants into owners.

Existing efforts to discourage buy-to-let landlords give them little incentive to actually sell up – and do nothing to make it easier for tenants and other first-time buyers to buy the properties coming onto the market.

Currently, a major issue is that landlords will not want to sell as it will force them to realise capital gains in order to transfer their money to another asset, even if that asset gives them a good return. Therefore, we propose that:

Landlords should be given the chance to sell their property to the sitting tenant (or another first-time buyer nominated by the tenant, or failing that a first-time buyer of their choice). The landlord would receive a tax break on the Capital Gains Tax and a further share of the Capital Gains Tax would go to the tenant, to act as a contribution towards their deposit.

There are many potential designs for this system, and complexities which will be addressed in the course of this report.

However, our research suggests that the following design offers the best trade-off between incentivising landlords and helping tenants:

- Divide the CGT relief so that 33% goes to the landlord, and 66% to the tenant or tenants.
- For the tenant this would be capped at 6.66% of the property value, with the tenant contributing the remaining 3.33%, and any remaining CGT surplus going to the Treasury. This support would be equalised among tenants participating in the scheme. (For properties with multiple tenants, ownership could either be divided equally among those participating, or in proportion to rental payments.)
- For smaller landlords who only own one property, we could potentially top up the landlord share with a flat £3,000 rebate per property.
- Cap the total relief per property for either tenant or landlord at £35,000, with the remainder being redistributed or retained by the Treasury.
- Implement this as a time-limited one-year offer, with tenants registering interest in 2019/20 for transactions to take place in the financial year 2020/21.

At a stroke, this could offer 4.7 million households the chance to own their home, with a 10% deposit if they contribute just 3.33% of the property's value. If just one in ten landlords and tenants took it up, it would mean nearly 500,000 homes moving from renting to ownership and likely more than a million new homeowners. This would be nearly three times more than the entire number of homes supported through the Help to Buy Equity Loan Scheme in its first five years, and roughly twice the number supported by both Help to Buy Equity Loan Scheme and Mortgage Guarantee schemes – without having the negative impact in terms of raising prices.[36]

HOW CAPITAL GAINS TAX WORKS

To understand this policy in more detail, it is necessary to explain the current CGT system. The rates for 2018/9 are set out below.[37]

Capital Gains Tax rate

Gains	Rate paid on gains
£0 - £11,700	0%
Gains within basic rate income tax limit.	18%
Above higher rate income tax threshold £46,351	28%

The first £11,700 is termed the Annual Exempt Amount (AEA), which an individual can make without paying any tax. Above this, Capital Gains Tax is based on your income that year, minus any relevant expenses and tax reliefs. If your capital gains and income for a year are above £11,700 but underneath the current higher tax rate threshold (this is the 40% rate), you pay 18% on any capital gains. Where your capital gains and income for a year push you over the higher rate tax threshold then you pay 28% on any capital gains. If your capital gains and income takes you over the threshold (e.g. your income is £30,000, but your capital gains are £30,000, so you start off below the higher rate but move above it), you pay 18% on the share below the higher rate threshold and 28% on the share above it.

Landlords with reasonably sized capital gains and even an average income quickly move from 0% to 28% on each £1 of capital gain that they make. For example, if you sold two £100,0000 properties in one year, and had no other income, you would pay capital gains on an income of £100,000 that year, minus the AEA amount, and at the two rates of 18% and 28%. Smaller landlords therefore tend to try to dispose of any property that generates capital gains receipts over a series of years, rather than in a single year, to maximise the benefit of the Annual Exempt Amount and limit exposure to the higher tax bands.

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A survey by Countrywide shows the average landlord in 2017 sold their property for £87,263 more than they paid for it. This equates to a 54% gain on their initial investment.[38] Few, however, do sell up, so this figure is a skewed representation of the levels of capital gain. Many landlords choose not to sell their property as they generate a substantial liability in terms of CGT – and the higher the level of capital gain, the stronger the incentive just to hold onto it.

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All this means that capital gains from the buy-to-let boom are coming into the Treasury very slowly. In 2014-15, there were 102,000 sales of residential properties from the pool of 4.7 million households –

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36 Equity Loan helped 169,102 homes: Help to Buy (Equity Loan scheme) and Help to Buy: NewBuy statistics: Data to 31 March 2018, England, *MHCLG*, August 2018
Mortgage Guarantee helped 104,763 homes: Help to Buy: mortgage guarantee scheme Quarterly Statistics, *HMT*, September 2017

37 Capital Gains Tax, *Gov.uk*

38 'What next for buy-to-let?', *Countrywide*, Spring 2018

a sales rate of just 2.2%.[39] HMRC recorded that £6.4 billion of chargeable capital gains were made on these residential property sales.[40] Given the rate of 18-28% payable on capital gains, this gives a range of between roughly £1.1-£1.7 billion raised by residential property sales that year. To be cautious, we will assume revenue is towards the upper end of this range at £1.5 billion.

For many landlords, CGT is a fairly substantial disincentive to sell up. The median average landlord's income, according to a survey by the Council of Mortgage Lenders, is between £60,000 and £70,000.[41] This means any capital gains above the annual exempt amount of £11,700 would be paid at a 28% rate. Some smaller landlords may have lower incomes closer to the national average income of around £27,300,[42] partly because this group are more likely to be pensioners. The gains from realising this gain of £87,263 will depend on the overall income of the individual selling – as the tables below show. Yet even for those on average incomes, CGT is fairly extensive at nearly £20,000 for an average gain.

Potential capital gain on average property (*) for landlord with £65,000 income

	Chargeable amount	Rate payable	Total paid
Annual Exempt Amount	£11,700	0%	£0
Gains below £46,350 higher rate threshold	£0	18%	£0
Gains above higher rate threshold	£75,563	28%	£21,158
		Total CGT Liability	**£21,158**

Potential capital gain on average property (*) for landlord with £27,300 income

	Chargeable amount	Rate payable	Total paid
Annual Exempt Amount	£11,700	0%	£0
Gains below £46,350 higher rate threshold	£19,050	18%	£3,429
Gains above higher rate threshold	£56,513	28%	£15,824
		Total CGT Liability	**£19,253**

(*) As noted this means a property with a gain worth 54% or £87,263.

39 Estimated number of taxpayer disposals, value of disposals, and chargeable gains by type of asset disposed of and length of period of ownership in 2014 to 2015, Table 14.6, *HMRC*, October 2017

40 Estimated number of taxpayer disposals, value of disposals, and chargeable gains by type of asset disposed of and length of period of ownership in 2014 to 2015, Table 14.6, *HMRC*, October 2017

41 'The profile of UK private landlords', K. Scanlon, C. Whitehead, *CML*, December 2016

42 Household disposable income and inequality in the UK: financial year ending 2017, *ONS*, January 2018

Obviously the greater the gain, the more will be paid at the 28% rate compared to the 18%, and the higher the income of the landlord in any year, the greater the rate of tax paid.

A landlord with two or three properties thinking of moving out of renting would have a fairly hefty tax liability for doing so and is likely to prefer maintaining renting instead. If they were selling a second or third property then their liability would be even higher, as the first £11,700 would also see them having to pay tax on this at a 28% rate, or around £3,000.

CREATING AN INCENTIVE FOR LANDLORD TO SELL AND TENANT TO OWN – AT NO COST

As discussed in part 1, the current returns available to landlords are not great. But in the absence of other investment options, and in the face of high CGT receipts, few landlords are selling up.

By recycling the Capital Gains Tax receipt from landlords that do sell into supporting the tenant into ownership, and supporting the landlord in selling their property, the Government would be creating a large number of transactions where none existed before, and then taxing them – meaning this policy would raise revenue that would otherwise not exist.

Indeed, this policy can be structured to ensure that the Treasury does not lose out, via the various caps and thresholds set out below. Not only would there be a portion of revenue left for the Treasury, but because the number of transactions should increase substantially, it should more than cover the predicted CGT receipts. On top of this, there would also be a saving in terms of housing benefit – as discussed further below – since households in owner – occupation would rely on savings or the loan-based Support for Mortgage Interest system to cover mortgage costs, rather than making new housing benefit claims.

HOW THIS POLICY SUPPORTS LANDLORDS

The Government is right to want to rebalance the property market toward ownership. But it must not come only from attacks on those who have become landlords. To that end, the CGT relief for landlords would have to be attractive enough for them to sell the property without taking out so much the tenant cannot afford to buy.

The Residential Landlords Association (RLA) have previously suggested that landlords be given a CGT reduction if they sell to tenants who are first-time buyers. An amendment to this effect was briefly tabled to the Finance Bill in 2016.[43] According to the RLA, 77% of landlords surveyed would consider selling to their tenants if their CGT bill was waived, and two-thirds would be more likely to sell to tenants if the CGT bill was reduced.[44]

Given this, we think that giving landlords a rebate worth 33% is the way forward in order to encourage them to sell. This still leaves most of the CGT intact while giving a fairly strong incentive to sell.

For some smaller landlords – those who only own a single property – we urge the Government to consider topping this up with a flat sum of £3,000. This is not a huge sum, and the cost would be limited given that only around 25% of properties would be covered.[45] But it could make a significant difference in incentivising the landlord to sell.

43 Consideration of Finance Bill (Report Stage), Amendment 143 (Kevin Hollinrake), *House of Commons*, August 2016
44 'Buy-to-let investors: 'Let us off capital gains tax and we'll sell to first-time buyers", *The Telegraph*, October 2015
45 'The profile of UK private landlords', K. Scanlon, C. Whitehead, *CML*, December 2016

Such a landlord, making an average gain of £87,263, with an average income of £27,300, would see a CGT rebate of £9,411 on the average property, compared with a tax bill of £19,253.

If you had a landlord with five properties, who had an income of £65,000, they would see a CGT rebate of £39,234 on a tax bill of £118,892.

In both cases, this is a substantial reduction in their tax bill and could encourage them to sell up. But if they did not want to sell up, then that is their business – no one should force them to dispose of their own property, or punish them for owning it.

For many small landlords, their second home and the income from it is also a valuable hedge against the future – for example in terms of paying for the costs of retirement and social care.

Yet it is also true that many landlords, faced with the shifting incentives described above and the prospect of a Labour government promising rent controls and other punishments, will be looking for an exit. The Help to Own scheme assists them with that – but we also suggest that the Government should, as outlined below, offer them alternative places to put the money they realise that offer not just a secure income but act to promote home ownership more broadly.

SELLING TO A TENANT HELPS LANDLORDS AVOID OTHER COSTS

Another incentive for the landlord is that this scheme would limit some of the costs and hassle involved in selling. There would be no need for any marketing, property viewings and so on. A survey by the Cambridge Centre for Housing and Planning Research (CCHPR) found that landlords cited the general difficulties and hassle of selling a property as a key factor in dissuading them from selling (CGT liabilities were, obviously, another common complaint).

The CCHPR also found that the fact properties had sitting tenants in situ can discourage sales. Landlords cited concerns such as that buyers may not want the risk of tenants not leaving when asked, and many agreed that *'trying to market a property with a tenant still there would reduce their potential market'*. As a result, many landlords will only seek to sell a property after it has become vacant. This of course means the landlord would end up losing money in a void period. Selling to the sitting tenant avoids such a void entirely.[46]

This scheme would eliminate this and also estate agent fees – which range from 1-3% of the property's value once you add in VAT, meaning a landlord selling an average £200,000 property would make a £4,000 saving on a 2% cost. So as a landlord, if you sold a typical property under this scheme, you would gain around £10,000 in tax and £4,000 in lower fees compared to a typical sale – a £14,000 saving for a typical first property being sold, worth more than an additional 15% in house price gains.

HOW THE POLICY SUPPORTS TENANTS TO BUY THEIR HOME

Under the Help to Own proposal, the remaining 66.6% of the CGT receipt would go into equity for the sitting tenant worth up to 6.66% of the value of the property (with some caps as discussed below).[47] To take advantage of this offer, the tenants would have to contribute 3.33% of the equity of the value of the property, making it a 10%

46 'Landlord portfolio management - past and future ', pp11-14, A. Clarke and A. Heywood, *Cambridge Centre for Housing and Planning Research*, July 2017

47Again, we are generally not going into the slightly more complex version where this is a small landlord and they obtain an additional £3,000 for the property.

equity stake and enabling them to obtain a 90% LTV mortgage. This would maintain the link between effort and reward: the Government would not be handing away free houses, but bridging the deposit gap for those who had already started to save.

It is, after all, morally right that people should contribute something to this – it is wrong for people to expect something for nothing. Government should help those who help themselves – not least because those who have bought a property having saved a deposit entirely by themselves will feel very strongly that giving the deposit away entirely is wrong. This offer should also be limited to those who do not already own a property – it hardly seems fair for tenants to take advantage of tax relief aimed at getting people on to the property ladder, when they already own property elsewhere.

In addition to this strong moral point, which would be sufficient reason alone to require a contribution, there is a practical angle as well. If those who are currently renting cannot save even a 3.33% contribution of the property's value toward the scheme, it does signal that they might not be able to budget effectively, or be the type of individual, group or couple that most banks would be comfortable lending to. It is wrong to help people to buy if they cannot cope with ownership, end up falling behind on their mortgage payments and have the property repossessed.

Yet for those that can afford it, this transfer would allow these tenants to move into ownership at a fraction of the normal cost. In 2016, there were 312,502 first-time buyer mortgages, of which 100,857 were at 90%+ and a further 141,938 at 85-90%. In short, nearly five in six first time buyer mortgages were at or near the 10% level, meaning that a 10% deposit should certainly be adequate for getting a mortgage. (As discussed later, the banks would also be able to recycle funds raised by sale of rented properties to support new mortgages.)

On an average UK property worth £228,384,[48] Help to Own would therefore enable people to move into ownership for a contribution of just £7,536 (assuming a deposit of 10% on a £228,384 property).[49] This is even less than the £12,675 they would need if they were buying the same property using a Help to Buy equity loan, which requires a 5% deposit – and unlike Help to Buy, they would start with a 10% equity stake that was theirs permanently, not a 20% stake taken by the Government they would become liable for later on.

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Transfer to tenants at different price levels

Property Value	Capital required without the scheme (10% deposit)	Capital required with the scheme (3.33%)	Saving made
£100,000	£10,000	£3,330	£6,670
£228,384 (UK average)	£22,838	£7,605	£15,233
£350,000	£35,000	£11,655	£23,345
£500,000	£50,000	£16,650	£33,350

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48 UK House Price Index for June 2018, *HM Land Registry*, August 2018
49 UK House Price Index for June 2018, *HM Land Registry*, August 2018

There are very substantial transfers that would come about from this scheme – for example a £350,000 property would see a £23,345 transfer being made to tenants as part of a deposit, meaning that the tenant would only have to find £11,655. For the less affluent parts of the UK, where a reasonable property might be just £100,000, then this would allow people to move into ownership for just £3,330 – a saving of £6,670.

There is an added incentive to tenants beyond the initial reliefs. The average repair bill for new homeowners is £5,750, according to the Royal Institute of Chartered Surveyors.[50] This is a substantial hidden cost – but it is one you are unlikely to pay if you have already been living in the property, with the landlord responsible for maintenance.

On top of this, tenants would also avoid the cost of removals that they would incur if they were moving to a different property, which can average as much as £600-700.[51] They would also not end up having to cover a void period at the end of tenancy, or rent a short-term property or live temporarily with friends before their new property was ready.

There would still be substantial legal fees, and the cost of surveys and valuation as discussed later on – but even here the Government should seek to see if there are ways that it could reduce such costs (e.g. via a standardised valuation offer). This way of moving to ownership would clearly be the most cost-effective.

As discussed further below, a key element here is that all tenants would receive this 6.66% through a mechanism of pooling and sharing the CGT receipts that are paid as part of this scheme. This would ensure that the system was fair to all taking part.

RIGHT OF FIRST REFUSAL TO SITTING TENANTS ON THE DAY THIS POLICY IS ANNOUNCED

Since this offer would have to be made to one person, the most obvious candidate is the sitting tenant. Otherwise it is hard to see how you would decide who is the most deserving person – since multiple people might want to purchase the property and obtain any support available. It would also result in tenants being turfed out of their properties, creating much resentment.

Consider the repercussions if one in 10 landlords decided to take this up but not sell to the sitting tenants, instead evicting them to make way for a different purchaser. This would mean evicting 470,000 households – 1.2 million people, given a household average size of 2.5.[52] This would turn a popular policy into one with substantial problems – and create a large group of those who were not just denied the chance to purchase their current home, but forced out in order for someone else to benefit.

Therefore, although we discuss possibilities of voluntary swaps between tenants, nomination of alternative first-time buyers, and other measures, the starting point has to be that this is offered to sitting tenants first and we proceed on that basis.

Once this policy is announced, landlords might try to evict tenants and replace them with others – most of all friends and family members. So the 'winner' would have to be the sitting tenant on the day that the policy is announced – or even several days before. For example, if this announcement was made in the Budget, it should be the sitting tenants on the day of the Budget itself, even if they then move on, who receives the first right of refusal.

50 RICS Home Surveys: A valuation is not a survey, *RICS*, April 2012

51 'Cost of Removals: The Average Fees for Removal Companies', *mybigmove.co.uk*

52 Tenure trends and cross tenure analysis, Table FA1211 (S109): Number of people living in household by tenure, 2016-17 (English Housing Survey), *MHCLG*, July 2018

3. Help to Own – The Numbers

To show that Help to Own is a genuinely realistic policy, we need to show that it can break even – meaning that a 66% CGT relief has to be sufficient to create 6.66% in equity for the sitting tenant.

This does not have to be the case across all properties, because the system could and should transfer some CGT relief from properties with very high gains to those with less. But the average increase in value has to be sufficient that 66% of the CGT payable gives a 6.66% equity share for tenants to gain a deposit. (We have calculated this on a UK-wide basis, although as housing and planning are devolved it would also be possible, as discussed below, for the scheme to be introduced in England only.)

Levels of appreciation will obviously differ depending on the levels of CGT relief. With 33% going to the landlord, the remaining 66% relief is either worth 12% (for those paying CGT at 18%) or 18.5% (from those paying the usual 28% rate) of the increase in value.

Capital gain | Income + Capital Gain | CGT liability as %
£25,000 | £45,000 | 5.3%
£50,000 | £70,000 | 11.6%
£100,000 | £120,000 | 18.4%
£200,000 | £220,000 | 22.8%

At 12%, each 1% increase in value means 0.12% in equity is created for tenants. At 18.5%, each 1% increase in value means 0.185% in equity is created.

Fortunately, the amount on which 18% CGT is chargeable is limited, because the maximum this covers is the first £58,051: the combination of the higher rate threshold of 46,351 and the Annual Exempt Allowance of £11,700. Anything above that will be charged on 28%. As any capital gain goes above this level the average CGT rises toward 28% (though never reaching it). As a reminder, even an individual on a fairly low income of £20,000 reaches the 28% threshold fairly quickly and starts paying a rate across the whole gain well above 18%, as the table below sets out.

Individual with income of £20,000 CGT liability on different levels of capital gain

Capital gain	Income + Capital Gain	CGT liability as %
£25,000	£45,000	5.3%
£50,000	£70,000	11.6%
£100,000	£120,000	18.4%
£200,000	£220,000	22.8%

The level of appreciation necessary to provide a 6.66% stake where the landlord earned £20,000 a year is set out below. The table makes provision for the Annual Exempt Allowance.

Original Value | Property value now | 6.66% equity stake | Appreciation from start necessary | % appreciation from start necessary

Illustrative levels of appreciation needed with landlord earning £20,000 a year

Original Value	Property value now	6.66% equity stake	Appreciation from start necessary	% appreciation from start necessary
£43,532	£100,000	£6,600	£56,468	130%
£108,175	£200,000	£13,200	£91,825	85%
£172,818	£300,000	£19,800	£127,182	74%
£237,461	£400,000	£26,400	£162,539	68%

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£43,532	£100,000	£6,600	£56,468	130%
£108,175	£200,000	£13,200	£91,825	85%
£172,818	£300,000	£19,800	£127,182	74%
£237,461	£400,000	£26,400	£162,539	68%

If the rebate to the tenant was accruing at the 18.5% rate (ie if the CGT payable was at 28%, the higher rate), the necessary increase in value from the starting value would be 54%. Again, adjusting for the £11,700 annual exempt amount the proportionate increase would be slightly higher, though it would again fall as a percentage as the value of the property rose – for example it would fall to 61% in terms of a £200,000 property (which is still over 10% below the average value property in the country).

Illustrative levels of appreciation needed if 28% CGT rate is chargeable

Original price	Property value	6.66% equity stake	Capital gain needed	% appreciation from start necessary
£64,643	£100,000	£6,600	£35,357	54%
£129,286	£200,000	£13,200	£70,714	54%
£193,929	£300,000	£19,800	£106,071	54%
£258,571	£400,000	£26,400	£141,429	54%

Appreciation needed if 28% CGT charged and annual exempt amount applies

Original Price	Property value	6.66% equity stake	Capital gain needed	% Appreciation from start necessary
£54,967	£100,000	£6,600	£47,057	82%
£121,633	£200,000	£13,200	£82,414	64%
£188,300	£300,000	£19,800	£117,771	59%
£254,967	£400,000	£26,400	£153,129	57%

From these calculations, the level of appreciation across all properties, on average, necessary to pay for a typical 6.66% equity stake would be around 60% to 65%. This is towards the low end of the figures above because there are two good reasons to think that the vast majority of gains will be taxed at the 28% rate. First, the Council of Mortgage Lenders' surveys of landlords show an average income of £60,000 to £70,000. This is well above the 28% threshold of £46,351 and so all gains would be at the 28% rate. Even those paying 18% are likely to only pay this on a fairly small part of any gain.

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Second, most properties will be part of a portfolio of properties, so the annual exempt allowance would only apply to one. Around 40% of all private rental properties are part of a portfolio of five or more properties, with fewer than 30% owned as single units.[53] Since the annual exempt amount is only applicable on the first £11,700, this will only cover part of the first property sold. It is possible for spouses to both use their exempt allowance, including transferring it from one partner to another (say if two properties were being sold, or one property that was owned jointly), but as discussed later, this would not make a huge difference for most rental portfolios.

Our calculations show that, to make the scheme work, the necessary average appreciation is between 60% and 65% as a lower and higher estimate. Yet the distribution of this gain is almost equally important. The higher the value of the properties, the lower the gain needed to create enough CGT value. And it is easier to recycle gains if it is higher value properties have increased the most in price, because any surplus that is created will be able to fund multiple lower-value properties. Fortunately, it is the case that the areas with the most expensive properties tend to have seen the largest gains.

Some examples showing how Help to Own would work in practice

EXAMPLE A

Landlord A bought Property A in 1999 for £80,000. It has since risen in value by 150% to £200,000, a gain of £120,000. Landlord A owns three properties, all bought at around the same time with similar increases in value and is selling them all, so any CGT from this sale under this scheme will be paid at the rate of 28%, meaning a Capital Gains Tax bill of £30,326 for Property A once you adjust for the annual exempt allowance. They receive 33% relief as a landlord, worth £10,108. The remaining CGT, worth £20,216 is given to the tenant – but they only needs £13,333 for their 6.66% equity stake, so the remaining £6,883 is recycled into the national scheme as discussed below.

EXAMPLE B

Landlord B bought Property B in 2007 for £150,000. It has since risen in value to £231,700. Landlord B is only selling one property and earns £20,000, so factoring in his £11,700 annual exempt amount, he pays CGT on £70,000. The first £26,351 is paid at 18% with the remaining £43,549 paid at 28%, giving a total tax bill of £16,936 (£4,743 + £12,193). The landlord receives a £5,645 tax incentive for selling to the tenant, and £11,291 goes to the tenant. This does not quite reach the £15,447 required for a 6.66% equity stake, so the remaining £4,156 needs to be cross-subsidised, via the surpluses from more lucrative sales such as Examples A or C.

EXAMPLE C

Landlord C bought Property C in London in 2005 for £200,000, and it has since risen in value to £500,000, giving a gain of £300,000. The landlord only has one property but is a higher rate taxpayer, so she would normally pay 28% CGT on all gains after her annual exempt amount is used up, giving a tax bill of £70,724. She could therefore receive a tax incentive of £23,551 to sell to her tenant, and the £33,000 she pays in CGT to the tenant means that even after all this, there is a surplus of £13,448 to redistribute back into the scheme.

53 'The profile of UK private landlords', K. Scanlon, C. Whitehead, *CML*, December 2016

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EXAMPLE	Final sale value	Capital gain	CGT rate due	CGT payable	CGT tax relief to landlord	Equity for tenant	6.66% deposit needed	6.66% equity surplus/ shortfall
Property A	£200,000	£120,000	28%	£30,326	£10,108	£20,108	£13,333	+£6,883
Property B	£231,700	£81,700	18% after AEA	£16,936	£5,645	£11,291	£15,447	-£4,156
Property C	£500,000	£300,000	28% after AEA	£70,724	£23,551	£33,000	£33,000	+£13,448

WHAT ABOUT ANY OTHER RELIEFS?

The main other relief in the system is the Private Residence Relief. This is available to people who lived in a property before they rented it out and reduces the amount of chargeable gain for the time it was someone's main home, and the last 18 months they owned the home. Some landlords can also qualify for Letting Relief, which allows them to claim the lesser of up to £40,000 in chargeable relief or the increase in the value of the property during the time they lived there.

In other words, if you lived in a property which went up by £100,000 while you lived there, you could reduce the amount that CGT was levied on by £40,000. It is important to note that this is not a reduction in your CGT bill, but in the amount of gain that you pay CGT on – so if you claimed the maximum of £40,000 in relief, you would see your CGT bill fall by £11,200 if your whole bill was based on 28%, and by £7,200 if paid at 18% (which would be less than the Help to Own scheme offers to an average landlord selling just one property at the average capital gain made).

This relief is therefore very small overall in the context of capital gains on rental properties – when the time that you could claim was reduced from 36 months to just 18 months, it cost the Government only £100 million.[54] In the context of the £1.5 billion capital gains bill estimated earlier, this is around 6%. This relief is also likely to predominantly benefit those landlords with only one property (making up 28% of properties)[55] in lower-value areas where properties have not increased in price very much. This is likely to only be between 5% and 10% of all properties.

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Since these are among the few properties that the Help to Own scheme does not work well for, we would simply suggest that those who would take advantage of it do not also gain from the Private Residence Relief. This would not really reduce the numbers applying for Help to Own, since the reliefs to most landlords would be much more generous and the group of landlords who are least likely to take part in it are those who benefit the most from the Private Residence Relief already.

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It could be argued that curbs to these reliefs would increase the incentive for landlords to use Help to Own, but in reality any such reform would be unfair unless it was grandfathered to protect those who have invested in good faith. Exempting existing landlords from any such changes would in turn simply make the reforms redundant, as Help to Own would only apply to current landlords.For these reasons we do not recommend abolishing the PRR scheme.

54 Policy Measures Database, Tax; All Measures, row 1059, *OBR*

55 'The profile of UK private landlords', p19, K. Scanlon, C. Whitehead, *CML*, December 2016

NATIONALLY, THERE HAS BEEN ENOUGH CAPITAL APPRECIATION FOR HELP TO OWN TO WORK

The first challenge in making the numbers stack up is estimating the necessary level of house price inflation in the private rented sector. The second is calculating whether that level has been reached.

In the section above, we showed that the level of appreciation that we have to reach is 60-65%. To test this, we created three separate methodologies to estimate the value of the country's private rented housing stock and the gain in value that has accrued – and hence the CGT levels that would be generated from the sale to tenants. More detail is provided in the appendix, given this is a crucial part of this report. However, the key point is that the appreciation is above what is needed.

Method 1: Private rented sector growth, via ONS

This uses data from the ONS to show how many private rented properties the sector expanded by each year, and works out the weighted growth of this. We calculated the proportion of properties each year accounted for in the ONS data as a share of the total PRS in 2016/7. We then adjusted for the fact that some properties were purchased before 1991 by excluding them (which would make this a conservative estimate, but is probably a sensible compensation for the fact that some properties might churn – so properties entering the sector are cancelled out by ones leaving the sector, which leaves the total size the same). This gives a figure for appreciation across the sector of 79.8%.

Method 2: Landlord flow, via CML

Using CML data on when landlords acquired their first property, we worked out appreciation weighted to the number of landlords acquiring in each period. We were cautious and assumed that any data over 20 years old was just 21 years old. Doing this, we came to an average appreciation across the sector of 66.3%.

Method 3: Asset disposals, via HMRC

This uses HMRC data on the value and volume of asset disposals and Capital Gains Tax payments, broken down by asset type and length of time for which the asset was held. Using the most recent year and taking the class 'UK & foreign residential/land' and assets held for between 15 and 20 years, the average chargeable gain was 42%. This means the property had appreciated by 72.4% compared with its purchase price.

Methods 1 and 3 are UK-wide and Method 2 is based on England only. However, the key point is that all three methods have fairly similar outcomes – despite using different data sets, they all come out above the 60%-65% that we estimate is necessary if tenants are to receive a very generous 6.66% equity stake and

Methodologies and levels of appreciation

Appreciation Method	Appreciation
Method 1: Flow of Private Renters	79.8%
Method 2: CML 2016 survey of landlords	66.3%
Method 3: HMRC Capital Gains Tax analysis	72.4%
Average	***72.8%***

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landlords a substantial rebate. In the first and third cases, there is also a reasonable buffer so that even if our estimate is too low, the scheme would still pay for itself. (And as discussed below, regional variations and our proposed cap system create an even more comfortable buffer.) The capital appreciation is therefore sufficient for this scheme to work.

RECYCLING VALUE SO ALL TENANTS RECEIVE A FAIR OFFER RATHER THAN A RANDOM REWARD

While the average capital appreciation available for landlords will have to be around 60% to 65% for Help to Own to work, capital appreciation will inevitably vary wildly from property to property and from landlord portfolio to landlord portfolio.

While we are confident the level of aggregate appreciation is sufficient given the three methodologies above, this obviously will not be the case for all individual properties. For a property bought 10 years ago in the North East, where house prices have actually fallen on average by 6.1% in that period, Help to Own is very unlikely to work.[56] Similarly, a property bought in London in 2015 will not have seen sufficient appreciation, given prices in the capital have only risen by around 15% in the last three years.[57] It is clear that in these areas a 6.66% stake will not be covered by recycling the CGT receipts available.

If you were to implement a version of this policy where you just recycled the CGT to sitting tenants without any means to equalise support, then Help to Own would become not just unfair but unpopular. Two tenants, in two identical properties, on the same street, could end up with massively different amounts. One might have a landlord who barely made any capital gains and was selling primarily in order to move their money out of the UK before a hypothetical Corbyn Government. In that case, the rebate would be worth perhaps a few thousand pounds. In another, you might have a landlord who bought years ago, meaning the tenant gets tens of thousands of pounds. This scale of unfairness is likely to weaken support for the policy – and can be avoided through careful thought.

The solution is a pooling and sharing mechanism, under which properties that generate ‘surplus’ receipts see them recycled to support other buyers.

This might raise doubts about affordability: what if the only properties put forward are those which fail to meet the threshold? But the financial underpinning of this scheme is strengthened by the built-in bias towards high-value properties, the associated incentives for the landlord, and the caps set out below.

HELP TO OWN ENCOURAGES SALE OF HIGH VALUE PROPERTIES

An obvious point about this policy is that those landlords taking advantage of the offer are more likely to be in high-value areas or own high-value properties. If a single owner landlord has a £350,000 property which has seen capital gains (net of allowances) worth £200,000 and so has a tax liability of £56,000, then this gives a relief of around £21,700 (33% plus a flat £3,000) and an estate agent fee saving of £7,000. A £120,000 property with capital gain of £60,000 has a tax liability of £16,800, a relief of £8,600, and estate agent fee saving of £2,400. Clearly, the incentive to sell is greater for the first property than the second.

56 Based on average North East price for May 2008 and May 2018, see UK House Price Index, Figure 5, ONS, May 2018

57Based on average London price for May 2015 and May 2018, see UK House Price Index, Figure 5, ONS, May 2018

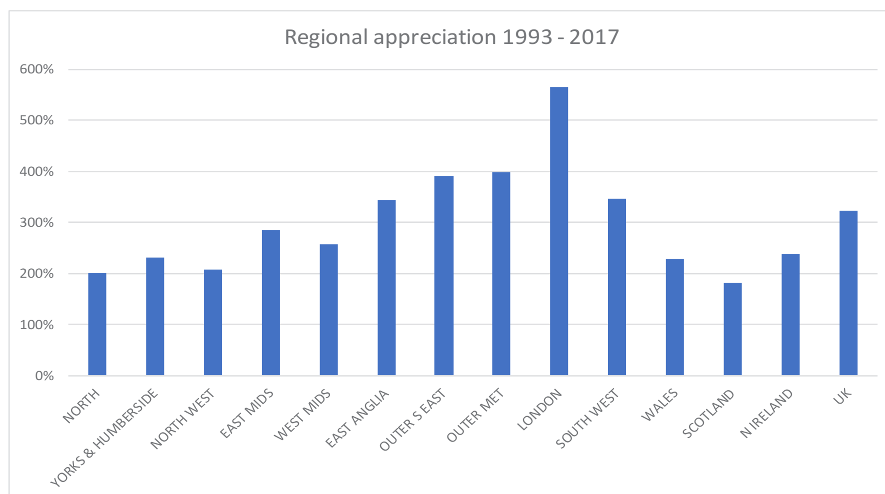
The objection might be that the Treasury is thereby missing out on more revenue. But the bias towards high-value property inherent in this policy means that the properties involved are more likely to be those where – due to the caps and thresholds suggested below – there will be more money to cross-subsidise other transactions, while returning cash to the Treasury.

This balance of properties matters because a bias towards higher value areas is more likely to make the scheme work. If house prices have increased by more in higher-value areas, it will mean more people paying at the 28% CGT rate, more people receiving the maximum available incentive, and more money being available for cross-subsidy. If the market has been stronger in low-value areas, then the reverse is true: national price appreciation might exceed the 60-65% threshold, but the lower value of the properties being put forward for sale means the Treasury will lose out.

Fortunately, the data is very clear that regional appreciation has been focused in higher-value areas: expensive houses in expensive areas have risen in price the most quickly. As the table below shows, London has seen the largest appreciation, followed by the wider South-East; less expensive areas of Scotland and the North East have seen the smallest.[58]

This means that our estimate earlier of national appreciation across the private rented sector is almost certainly an underestimate, because areas with the highest level of appreciation are those with the largest absolute capital gains, which would be available in many cases to be recycled across the country.

Furthermore, while most of our calculations have been made on a UK-wide basis, it is worth pointing out that housing is a devolved issue. However, these house price variations mean that if the devolved administrations in Scotland, Wales and Northern Ireland resisted the introduction of Help to Buy in their areas, it would make the scheme even more affordable in England – and more attractive to the Treasury.



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58 House Price Index, UK and regional quarterly series - all properties, Regional Quarterly Indices (Post 1973), Nationwide

CAPPING THE SCHEME TO ENSURE REVENUE AND FAIRNESS

The sections above all show that levels of capital appreciation, and hence CGT, are more than enough to ensure that this policy pays for itself. However, we wish to make sure that the policy actually raises funding for the Government. In addition, there is an element of fairness. While the Government should help those who want to become owners, this should be proportionate, rather than excessive.

To achieve both of these goals, we propose a series of interventions to make sure that the scheme is both affordable and fair in terms of the offers to different tenants and landlords. Therefore, we propose three caps to help ensure that this scheme should raise revenue:

A. Capping the value of the support to the tenant
B. Capping the value of the relief for the landlord
C. Reducing landlord relief for large property portfolios

A. *Capping the value of the support for the tenant*

Two rich individuals renting a £1 million flat in Islington will almost certainly be able to afford a property without a £66,000 contribution toward their deposit from Help to Own – even if they cannot afford to buy their current home.

We propose that, to share the gains of the scheme more widely and fairly, the value of the stake transferred to the tenant or tenants should be capped at £35,000. This means for example, a £600,000 property with three people living in it would see a cap of £35,000, meaning an equity stake of 5.8% rather than 6.66% being offered to the tenants. The tenants would have to contribute at least 3.33%, as with other homes, in order to take advantage of this discount, meaning an £18,000 contribution as a group (£6,000 each). However, while they would be gaining a lower percentage of the equity, they would be gaining a very high level of rebate in absolute terms.

Using data on the distribution of house prices in the UK from the Land Registry,[59] and assuming that house price distribution is identical to that in the private rented sector (which is not ideal, but should give us a broad idea), we can work out how much this saves.

The distribution of house prices is broken up into categories such as £500k-£600k, so in order to simplify, central figures have been used for each category (i.e. for the category £500k-600k, the central figure is £550k).

We estimated the savings of the cap for a single house at each price level (with £100,000 intervals), then used the distribution data to multiply this figure by the number of houses in each price category. By summing up all the categories, we therefore calculated an overall cost saving.

Savings from the cap were calculated under the following two scenarios:

Scenario 1) If 10% of the PRS is sold, the cap saves £624 million.

Scenario 2) If 25% of the PRS is sold the cap, saves £1.56 billion.

This cap means any tenant renting a property worth more than £525,000 would not obtain the same percentage level of equity others might – but they would gain more in absolute terms, up to the value of the cap. Such tenants could also opt to trade properties (see below). Alternatively,

59 UK House Price Index (UK HPI) annual review 2016, *HM Land Registry*, February 2017

they could remain renters and pass up the opportunity to buy. Or, as is discussed later on, if they could not purchase an outright stake, they could purchase a 51% stake in the property – which would allow them to gain up to £35,000 in equity and so benefit in that manner.

B. Capping the value of the relief for the landlord

The same £35,000 cap should apply for landlords – with relief capped at this rate on a per property basis. In order for the £35,000 limit to be breached a house would have to have seen a capital gain worth £376,344. This level of absolute gain is very unlikely on properties worth less than £1 million – in other words, on 98.5% of homes.[60] So we can assume that at most 1.5% of houses will see the landlord's CGT relief capped, since even properties worth more than £1 million may not have seen a taxable gain of £376,000 or more. Most landlords will therefore be eligible for full CGT relief, and even those which 'only' receive £35,000 will be obtaining a fairly large sum.

This should still, however, create savings for cross-subsidy, or receipts for the Treasury. To take an example, consider a house now worth £2 million that has increased in value by 42%, or £840,000 (not an unlikely scenario in much of London and the South-East). Normally, the landlord would pay 28% CGT worth £235,200 (we assume, fairly reasonably, that the owner of such a property is a higher rate taxpayer).

The full landlord relief of 33% would be worth £77,550 to the landlord, and so capping the relief at £35,000 will therefore save £42,550 in this example. But £35,000 is still a very attractive level of saving – particularly given landlords' concerns about low yields, possible future tax changes and a future Government that is more hostile to buy-to-let.

Again, we can make a rough estimate of the overall savings from this second cap – essentially using the same methodology. This gives the following savings:

Scenario 1) If 10% of the PRS is sold, the cap saves £54 million.

Scenario 2) If 25% of the PRS is sold, the cap saves £135.3 million.

It is important to note this is a cap on each property, not the overall portfolio.

It could be argued that this £35,000 cap should be lower – but this is likely to be self-defeating. Consider the case of a property worth £1,000,000 now after a capital gain of £500,000. The landlord would gain £35,000, as would the tenant. But the CGT available would be £140,000, meaning that even after these two sums were paid, the receipts would contribute £70,000 to the overall scheme. We want people whose properties have appreciated in this way to be part of the scheme – in order to cross-subsidise other properties and also to pay for a potential shared ownership scheme for those whose landlords do not want to sell, as discussed later. We also want to make sure that the incentive to sell is significant enough that landlords are not tempted to keep hold of their properties in the expectation of further house price inflation increasing the value of their asset.

C. Reducing landlord relief for large property portfolios

Where a landlord has a very large property empire, relief should be capped. While it is relatively rare, there are some landlords who claim close to 1,000 properties. For this group of landlords, the gain from the proposed relief will be colossal in absolute

60 UK House Price Index (UK HPI) annual review 2016, *HM Land Registry*, February 2017

terms – a landlord of 500 properties that have each appreciated on average by just £50,000 would save £2.3 million under Help to Own.

Given the general principle of proportionality, we suggest that, for landlords who own 10 or more properties, the proposed 33% CGT relief should fall to 25%. For those owning 26 or more, this should fall to 20%.

This would still mean fairly large savings for those choosing to sell their properties on – in the case of the landlord owning 500 properties above, they would still save £1,400,000 in capital gains. In addition, landlords who own large property empires would find it much harder to dispose of their properties one by one in order to benefit from the Annual Exempt Allowance and 18% relief rate, and so the practical need to give them as extensive a relief is reduced. This will also reduce the cost of this policy to the Government.

An alternative approach would be a sliding scale based on the absolute value of CGT rather than the number of properties. However, as discussed earlier, there is a strong regional bias in rates of capital appreciation. We want and need those who own high value properties with substantial capital appreciation to sell them. Therefore, basing rates on the number of properties is more likely to encourage those with a smaller number of high value properties to dispose of them, particularly those in London and the South East. It is thus desirable to sacrifice an element of equity in order to ensure the cost-efficiency of the scheme.

Proposed tapering of CGT relief (slab structure)

Number of properties being sold	Relief for the landlord	Effective CGT rate (versus 28% rate)
1-9	33%	18.5
10-25	25%	21
26+	20%	22.4

HOW THIS MIGHT WORK IN PRACTICE

Example A

Landlord A, who is a higher rate taxpayer, owns 11 properties and decides to take advantage of the scheme and sell them all to the current tenants. The overall gain from all of the properties totals £811,700. Once the Annual Exempt Amount is applied, this leaves £800,000 on which to pay Capital Gains Tax. The level of CGT is therefore £224,000. If the usual 33% CGT relief had been available, this would have meant a £74,000 or so reduction in the tax to pay. However, the tapering of relief means this is slightly reduced to £56,000 – which is still an adequate incentive to sell, but diverts the remaining £18,000 towards topping up equity stakes for tenants of other properties.

Example B

Landlord B has a large property portfolio of 60 properties and decides to sell these under the scheme. The overall gain totals £3,011,700. Once the Annual Exempt Amount is applied, tax is due on the remaining £3 million. The full rate of 33% relief would have given Landlord B a tax

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break of £280,000. However, the tapering of relief means the 20% CGT relief rate is applied, reducing this to £240,000 This would save £40,000 to contribute to the wider scheme.

An estimate of how much this cap saves in total

To estimate how much money this might save, the following method was used. Data on the number of properties in portfolios was taken from the MHCLG Private Landlords Survey.[61] This breaks down the distribution of properties by the proportion of landlords that own a certain number. The categories are: 1, 2-4, 5-9, 10-24, 25-100, and 100+.

For each of the categories a central number was chosen, for example 7.5 for the 5-9 category, giving a rough estimate of the average size of the portfolio of a landlord in that category. (One important thing to note here is that more than 95% of landlords own fewer than 5 properties, meaning this cap will affect less than 5% of landlords.)

Using the latest available income tax data from 2013/14 on the number of landlords, and adjusting for subsequent growth in the private rented sector, we estimated how many landlords will be impacted by the cap and by how much. The figures this produces are as follows:

Scenario 1) If 10% of the PRS is sold, the cap saves £358 million.

Scenario 2) If 25% of the PRS is sold, the cap saves £894 million.

OVERALL SAVINGS FROM THE CAPS

So we have three caps in place. We can estimate how much the caps on tenant equity, landlord relief, and landlord relief for large property empires would save by adding together the savings under the two scenarios, as the table below does. Under Scenario 1, where 10% of the PRS is sold, total savings from the caps raise just over £1 billion. Under Scenario 2, where 25% of the PRS is sold, the figure is over £2.5 billion. Obviously, if Help to Own is more successful than this, the savings will be commensurately greater.

Value of the caps in total

Limit on scheme	10% TAKE-UP	25% TAKE-UP
Tenant value of property	£624 million	£1.56 billion
Landlord value of property	£54 million	£135 million
Large landlords reduced rate	£358 million	£894 billion
Total	£1.036 billion	£2.589 billion

61 Private Landlords Survey, *DCLG*, October 2011

The savings here are substantial. And these caps also have another benefit, which is that they reduce the level of house price appreciation necessary to make Help to Own work – so either they would raise significant receipts, assuming that the properties taking part have appreciation over the 60-65% we discussed earlier as necessary (which seems likely), or help ensure that the scheme is cost-neutral.

Taking the average house price for May 2018 of £228,384 and assuming this is typical of the private rented sector, the average deposit support for the tenant will be £14,953.26 for the 6.66% equity stake. Taking the overall savings of the three caps, and dividing this by the number of properties in the PRS, you get an average saving per property of £2,321.53. This reduces the average cost of 6.66% equity to £12,631.73.

To offer a very crude estimate, once you factor in the architecture of the CGT system, the capital appreciation necessary falls by around 10% (for full details, please see Appendix). And even this assumes that landlords own one property each, when in reality the figures suggest they own on average 1.8.[62] This means that the Annual Exempt Allowance will not apply to every property which is sold, which will increase the amount of CGT raised from the scheme, and mean a lower baseline level of appreciation. Adjusting for this results in an approximate figure of 55% in capital appreciation when the caps don't apply, and 45% when they do. In other words, the caps reduce the risk to the Treasury involved in Help to Own from already minimal levels.

HOUSING BENEFIT – A FURTHER SAVING FOR GOVERNMENT

On our earlier estimate, the total raised in Capital Gains Tax by the sale of residential property was estimated to be around £1.5 billion a year. Clearly, in the year that this policy is enacted (if implemented, as suggested, via a limited-time offer), the cap system means that there would be a significant short-term increase in receipts.

In the medium term, it could be argued, the Government will be losing out on the hypothetical CGT that might have been earned on these properties – although £1.5 billion a year is a very small sum in a world where the Government is likely to spend £812 billion in 2018/9.[63]

However, there is a countervailing advantage: a major reduction in renting and a major increase in the proportion owning their home should generate further savings for the Exchequer, which should help counterbalance any lost revenue.

Currently, around 1.271 million households are private renters in receipt of housing benefit. This works out at around one in four of those who are currently renting privately. The mean annual benefit received is £5,822, or £111.97 per week.[64] This gives an annual total of £7.4 billion.

Those on housing benefit would not normally be expected to be in a position to take out a mortgage, as to qualify for the benefit your savings must not exceed £16,000. Yet under Help to Own, only a 3.33% deposit needs to be provided by the tenant, meaning housing benefit tenants with relatively modest savings may be able to become owners.

62 'Number of Landlords in the UK Hits Record High of 2.5m', R. Jinks, *Landlord News*, April 2018

63 'The Estimates process and 2017-18 Main Estimates', L. Honeysett, P. Brien, *House of Commons Library*, June 2017

64 Housing Benefit caseload statistics, Table 4, *DWP*, August 2018

The £16,000 savings limit would be enough to cover 3.33% of a property worth more than half a million pounds, far more than is likely to be needed; a £250,000 property (a fairly expensive one in most of the country), could be purchased with just £8,250 of savings, comfortably within this saving limit. The Government could also publicise to renting households who are alarmed about potential mortgage costs that there is a loan-based scheme, Support for Mortgage Interest (SMI), available – which has the advantage of being cost-neutral to Government.

It may seem strange to argue that many of those receiving benefits can afford to own homes. But it is not only the very poorest who claim housing benefit. Much of the bill is down to 'churn', as people who have average incomes but lose work end up claiming benefits.

In 2014, the distribution of housing benefit was such that around £4 billion of the £17.1 billion in housing subsidies recorded via an ONS survey was spent on those not on the bottom two deciles of income.[65] If one in four of this group moved out of claiming benefits, this would save up to £1 billion (depending on how the split between social and private tenants breaks down).

Given that CGT receipts are likely to be reduced by Help to Own but hardly eliminated, especially if it is offered on a time-limited basis, this may well equal any lost receipts. If CGT receipts fell by 25%, or just under £400 million, because the stream of receipts decreased, then this scheme might actually save money. Even if you assumed that bringing forward sales reduced the impact particularly sharply in the next few years – a 15% take-up rate among landlords, which cut the rate of CGT receipts by 45% in the following five years – the annual loss would only be £700 million, which could be more than balanced by savings in housing benefit claims. In other words, the revenue per houshold lost or gained by the Treasury is likely to total a few hundred pounds each on average, spread out over a decade or so.

And of course, in the very long term, in the absence of policies to promote home ownership, housing benefit will spiral out of control. Those who urge the Government to build more council houses rather than focusing on home ownership often forget that people overwhelmingly want to be homeowners rather than tenants of the state – and invariably forget that if home ownership collapses, we will spend billions on supporting private renters when they retire.

Assuming that each private renter lives for 10 years after retirement, being supported by the state, it would cost £58,000 at current rates. Therefore a cost of a few thousand pounds spent now would be offset more than 10 times over in the future if it moves an additional household into home ownership.

65 Effects of Taxes and Benefits on Household Income, Financial Year Ending 2017, Table 23, *ONS*, June 2018

4. Help for Tenants, Help for Landlords

The Help to Own scheme would represent, and hopefully produce, a significant change to Britain's housing market. (Or England's, if the devolved administrations reject the policy.) As such, it will inevitably involve significant complexities, and invite criticism. In this concluding chapter, we have attempted to address the most obvious objections, and spell out further advantages of the scheme.

WILL THERE BE ENOUGH MORTGAGE CREDIT AVAILABLE? AND MIGHT THIS STOKE ANOTHER BORROWING BOOM?

One potential issue with this proposal is the level of mortgages available for those who want to buy outright – particularly if this scheme is very popular. Total new mortgage lending made in 2017 was £263.1 billion,[66] and for first-time buyers £54.9 billion.[67] If this proposal was taken up by 25% of renters, all purchasing an average property on a 90% LTV mortgage, the total size of the mortgages required would be £225.9 billion.[68] This could increase net lending – which might encourage banks to raise interest rates for mortgages, or alternatively could lead them to issue very high levels of new debt, which is also unwelcome.[69]

However, this headline figure is misleading. First, where a buy-to-let landlord is selling and they already have a mortgage, one mortgage is being destroyed, and another created, limiting the increase in lending.

Second, where the sale of a buy-to-let property generates revenue, this revenue needs somewhere to go. We strongly suggest that landlords are given the option to recycle the money raised by the sale of properties into lending to support those purchasing other properties, perhaps with a specific five-year fixed rate, giving certainty to both sides.

This would allow those who sold the properties to receive a steady income stream over the next five years, locking in certainty (probably somewhere between the current 2.6% return for long-term institutional investors and the 3% return on shared ownership discussed immediately below).

For tenants moving into ownership, such certainty is likely to be attractive: a shorter-term mortgage might be slightly cheaper, but it would mean that they could plan ahead for five years.

When we factor in the stress and effort of having to manage a property and liaise with tenants and letting agents, plus the

66 Mortgage Lenders and Administrators Statistics - 2017 Q4, MLAR Statistics, Summary Table 1, *Bank of England*, March 2018

67 Mortgage Lenders and Administrators Statistics - 2017 Q4, MLAR Statistics, Summary Table 1, *Bank of England*, March 2018

68 Based on 4.7m privately renting households, with 25% being 1.175 million households, and an average property price £213,618 (Nationwide), and a 90% LTC mortgage per renter: £192,256.2. This gives total size of mortgages required = £192,256.2 *2.35 million households.

69 Since credit does not require prior saving – which anyone who grasps the core of modern finance knows.

costs of covering maintenance and so on, a guaranteed return in the form of mortgage interest as set out above could be an attractive alternative investment for landlords, particularly as this is less politically volatile than staying a landlord.

WHAT ABOUT THOSE TENANTS WHO CAN'T AFFORD THE WHOLE PROPERTY?

As discussed right at the start of this paper, most people can afford to purchase their property. But for some areas – particularly London, where rents are out of line with house prices – this may not be the case. In addition, there will be would-be owners who are unable to borrow a sufficiently high multiple of its income.

This is particularly true in more expensive properties. A couple with a household income of £60,000, living in a London property worth £400,000, would probably not be able to purchase it outright even under this scheme, because even with a £40,000 deposit, they would require a £360,000 mortgage – more than six times their income and so more than the five times their income a bank might lend, even the mortgage costs were the same as or lower than the rent they had been paying.

For the purposes of Help to Own, one solution is to let people swap with other tenants', as discussed below – particularly if they would like to purchase a different home.

An alternative, if the tenant likes their current property, is to opt for shared ownership, a form of affordable housing whereby the tenant owns part of the property and pays rent on the rest, which remains owned by another party. This would enable them to purchase a 50.1% stake in the value of the property.

Giving people a stake via shared ownership would be very attractive to renters. Polling by ComRes found that 78% of private renters would choose shared ownership over renting if the cost each month was the same (which for most it is – as discussed earlier, the largest problem for many is obtaining the deposit needed to move into ownership, and renters often have higher earnings than those who own a home).[70]

Shared ownership tends to be the same or lower cost than renting in part because day to day maintenance is taken on by the tenant, and under Help to Own when you move to shared ownership, you would get a major stake in equity at a substantial discount – which you would not be paying rent or having to borrow a mortgage against.

Because a tenant would still see a 10% equity stake put down (or £35,000 equivalent), there would still be a major equity gain for the tenants, who would then need a mortgage on just 40% of the property (if they decided to go with a 50.1% stake) and then pay the typical shared ownership level of rent on the remainder. A typical rent is calculated on around 3% of the capital value of the property you don't own, so if the share you don't own is worth £150,000 you pay around £4,500 a year in rent, which is fairly affordable. (This also generates a 3% return for whoever owns the remainder of the property, as discussed above.)

For an average property priced at £228,384, a couple with a £40,000 income could purchase via shared ownership quite comfortably. After subtracting the 10% that they now own via Help to Own, the remainder would be £205,545, leaving a mortgage on 40% of the property worth £91,353. If the couple secured a mortgage at a 2% interest rate this would be £492 a month or £5,904 a year. The rent paid would be 3% of the value of the remaining half of the property, which is £114,192, giving

70 Shared Ownership Poll – Survey of Private Renters, Table 7, *ComRes*, September 2017

annual rent of £3,425. This would mean they could own a majority stake in their home for £9,329 a year, which would come in at under 25% of their income – well under the general benchmark of 35% for housing affordability.

Alternatively, on a £400,000 property, even a couple with a £60,000 income would, as discussed, struggle to obtain a mortgage on the whole amount. However, a 50.1% stake in the property, after subtracting the £40,000 stake they own, would amount to a much more realistic £160,000 mortgage, with rent paid on the remaining £200,000. This would work out, under a 2% interest rate, at just £9,708 a year, or £759 a month, which when combined with 3% rent on the unowned share of £6,000 a year, or £500 a month, would mean they could own a majority stake in their home for £1,309 a month, or £15,708 – a fairly affordable level at just 25% of their income.

Even if interest rates rise, this arrangement is clearly not just affordable but also preferable to the many who are currently renting, as they will gain more and more of the equity over years.

For example, a couple or friends with an income of £60,000 club together for a 50.1% stake in a £600,000 property. After you subtract the £60,000 stake they own outright, the mortgage required would amount to £240,000. At a 3% interest rate, this would cost £1,331 in monthly payments and £15,972 annually. When combined with 3% rent on the unowned share of £9,000 a year, or £750 a month, this would mean a couple on £60,000 could own a majority stake in their home for £2,181 a month, or £26,172 a year. This is a significant yet still manageable 43% share of their income – and unlikely to be more than the current rent. It would also mean they were paying down their mortgage – after 10 years they would have paid off over £100,000 and would have built an equity stake worth £140,000 including the initial 10%.

This system will be particularly attractive for younger people, who are likely to see their incomes rise, as they will easily be able to staircase up their ownership level. It also helps ensure that they start building equity earlier in their life. But even if someone could not staircase easily, they will have greater rights over the property, means they do not have to rely on a landlord for repairs, and will have at least a share of the property where none existed before.

HOW CAN WE MAKE THIS SHARED OWNERSHIP SIMPLER?

To speed adoption, Government should create a standard set of terms for those purchasing their home in this way, so that if a property enters shared ownership the rent payable would be set at 3% of the capital value and linked to CPI for at least the next 10 years, to give people the confidence that they would be treated fairly.

Under this scheme there should be a clear set of responsibilities and rights for owners as well, particularly around the right of shared owners to decorate their property and responsibility for basic maintenance. This will help ensure such a scheme is a success for all parties.

The minimum stake possible should be considered as part of this. We would argue that it should be set at 50.1% so that the property is predominantly owned by the tenant – but the Government may decide differently. Some tenants might want a higher share of the property (e.g. 60% or 70%) – and the Government should decide how far it should give flexibility to those purchasing.

WHAT IF MY LANDLORD DOESN'T WANT TO SELL?

There will be some cases – probably many cases – where a landlord does not want to sell even though the tenant or tenants want to buy. That is perfectly within their rights.

However, as set out in the previous chapter, the cap system is likely to generate significant extra money, estimated at £1 billion to £2.5 billion. Such additional money raised could be put into a national pot for to support shared ownership – allowing those who want to purchase the property they are renting, but whose landlord does not want to sell, to use that scheme instead.

Private sector shared ownership schemes have the potential to offer large volumes of affordable housing stock, ideally suited to first-time buyers. With eligibility restrictions having been lifted for shared ownership schemes at large, the Government has been a proponent of private shared ownership schemes in recent years, with George Osborne announcing support for 135,000 such cases in the Spending Review and Autumn Statement 2015.[71]

This intention was followed up by the shared ownership and affordable homes program 2016-2021, with the Government reiterating its support of shared ownership in the Housing White Paper 2017, announcing a desire for institutional investors to invest, even asking for suggestions as to how to expand the sector.[72]

Yet despite the progress that has been made, it is clear there is further to go and that the private sector holds largely untapped potential. There are currently various private sector providers that are expanding shared ownership provision, often working with Homes England, and this money could be channelled on a competitive basis toward these providers as well as housing associations.

The incentives and rewards involved might not be as large as received by tenants under Help to Own. But they would be much, much better than nothing. Shared ownership is also much cheaper than the other forms of affordable housing, as the table below shows. This grant figure might be an overestimate, since the 2011-15 grant used to support affordable home ownership went to housing associations, which cross-subsidised other activity, particularly sub-market rent, from sale of shared ownership.

Average 2011-15 funding per home by Homes & Communities Agency by Area[73]

HCA Operating Area	Affordable Rent	Affordable Home Ownership (*)	Ratio of AR to AHO homes
East and South East	£16,798	£5,124	3.278
Midlands	£20,536	£8,757	2.345
North East, Y & H	£19,620	£11,467	1.711
North West	£20,001	£12,489	1.601
South and South West	£17,261	£8,103	2.130
TOTAL	**£18,788**	**£7,871**	**2.387**

** in practice shared ownership*

71 Spending Review and Autumn Statement 2015, *HMT*, November 2015

72 'Fixing our Broken Housing Market', *MHCLG*, February 2017

73 2011-15 Affordable Homes Programme Summary, *HCA*, latest approved offers as of September 2014

If we assume that the grant required per affordable home is about 10% higher than in the 2011-15 period (so around £8,500), this means that the £1 billion to £2.5 billion raised by the surplus CGT available would help an extra 120,000 to 300,000 households into home ownership. This should hopefully cover many if not all of those who want to purchase and come forward to investigate Help to Own but are not able to take part because their landlord will not sell.

This scheme also has the benefit of potentially replacing the current Help to Buy Equity Loan, which is scheduled to expire in 2020. There is now a general consensus that Help to Buy has moved from helpful market support to largely serving to inflate land prices. But there is a need to ensure that sales rates do not collapse – particularly given the Letwin Review's analysis about the crucial relationship between sales rates and build-out rates. If from 2020-21, developers knew that they could offer shared ownership to this large pool of purchasers, they would accelerate development over 2019-20, helping the Government towards delivering more homes.

BUT WHERE WOULD LANDLORDS PUT THEIR MONEY AFTER SELLING?

The shared ownership offer above is not just advantageous for the tenant. The creation of a large number of shared ownership properties would create an attractive and inflation-linked product with a 3% + CPI rental return. We suggest that this product should not be made available to the market but to the landlords who are being encouraged to sell under Help to Own.

In particular, it should be focused on smaller landlords who participate in this scheme, perhaps via a cap of 100% on the receipts from the first property, but 50% from a second and subsequent properties.

So if a landlord sold a £400,000 property they would not only benefit from CGT relief, but know that they could put the money into a Government-supported shared ownership scheme that offered a 3% + CPI linked return for the next 10 years.

Given that 34% of landlords are making a yield of 3% or less, and another 34% are making a yield of between 4-5%, in return for having to deal with the stress and risk of a property (including voids, maintenance, tenant risk and so on), such an offer should be a fairly attractive proposition. As noted, one survey found that the institutional return on rents (which is likely to include time of maintaining and supporting tenants) is just 2.6%, so a rise to 3% would actually be an increase in landlord returns.

The attractiveness of this offer is even higher given the political pressures growing in this area, the general desire to reduce house price inflation, and the risk of a hostile and anti-landlord Government in the future.

WOULDN'T THIS CANNIBALISE FUTURE TAX RECEIPTS?

This depends on two points:

1. The rate at which housing benefit is reduced to make up for the capital gains receipts.

2. The ability to accurately forecast receipts over a very long timeframe, and the extent to which Government is neutral about renting and owning.

The first question has already been discussed, but it is worth pointing out again that as a minimum, then a very large amount – if not all – of the Capital Gains Tax lost each year would be recouped by lower housing benefit bills. Even if the Treasury only saved £1 billion in housing

benefit and lost the full £1.5 billion in annual CGT receipts, this would mean the annual cost of moving hundreds of thousands of people into ownership was marginal. If, for example, one in ten landlords took this up, and a million new owners were created, it would mean that the policy cost £500 for each new home owner each year.

However, if the Government is genuinely committed to home ownership – and to stable or marginally increasing nominal house prices over time – there will never be a better time to implement this policy, given the scale of capital appreciation in the housing market and the state of interest rates.

In addition, this objection assumes that you are neutral about ownership and renting. We are not. In addition, this argument takes the current situation as 'neutral' when in fact there has been a massive £220 billion shift in incentives that pushed investment into buy-to-let and away from home ownership. A few hundred million each year over a decade would be a tiny fraction of the damage done.

WHAT ABOUT WHERE PROPERTY VALUES HAVE FALLEN?

As mentioned above, not all properties will have increased in value since being bought. Countrywide estate agents calculate that around 10% of rented properties will not have increased or have fallen in value. In these cases, there will be no incentive for the landlord to sell given there are no capital gains, and no rebate to be recycled into a deposit.

Obviously, these properties are not equally distributed. For example, the Countrywide statistics suggest that as many as 30% of landlords in the North East of England have not made a capital gain on their property.

One option would be to take these properties out of Help to Own entirely. Yet that seems unfair – restricting the opportunity to own to those in the richest part of the country.

In terms of the incentive that could be offered, the determining factor is the property's value. After all, it will be far costlier for the Government to support a 6.66% deposit for a property worth £500,000 than one worth £100,000.

We estimate that the average rental property in the North East would be worth around £100,000 given an average capital gain for landlords in that region estimated at £24,427, and the average percentage gain calculated at 33%.[74]

We therefore propose a cap on such properties, worth perhaps £150,000, with tenants able to participate in the scheme as normal and see their 3.33% equity topped up to 10%. This would cost the Government at most £9,900 for each property supported in this way. For landlords, the incentive would be, effectively, that they could cut their losses, with access offered to alternative investment schemes as outlined above which would guarantee a moderate return. For those living in higher-value properties, the Government should consider if there is another way that they can help these tenants to own – for example by prioritising them in the expansion of shared ownership.

74 'What next for buy-to-let?', *Countrywide*, Spring 2018

WHAT ABOUT STAMP DUTY?

One obvious question about this scheme is whether the transaction is liable to Stamp Duty Land Tax (SDLT). Obviously, it would be counter-productive to offer reliefs encouraging people into home ownership on the one hand, and charge them for the privilege on the other.

Fortunately, the recent reforms to Stamp Duty Land Tax (SDLT) for first-time buyers ensure that this is less of an issue. As mentioned above, Help to Own will only be available to those who do not already own property. So there will be no need for tenants to pay SDLT on anything worth less than £300,000, and properties under £500,000 will be able to benefit from the fact that SDLT is paid only on the portion above £300,000.

The Government could also decide to reduce the cost of moving ownership still further by choosing to reduce or eliminate any SDLT payable under Help to Own.

One point that is worth making is that currently, SDLT is double-charged on shared ownership properties: it is paid on the cost of the whole property by the body (such as a pension fund) which is purchasing it, and then again when they sell their share. This needs to be resolved in any case, but this scheme would add urgency to this.

WHAT ABOUT LANDLORDS WHO DON'T OWN THE WHOLE PROPERTY?

Throughout this report we have assumed that an entire property is owned by the landlord in question – or at least they own it subject to a mortgage. We have also assumed, again for the sake of simplicity, that there is one tenant present – though the scheme works equally well if the property is divided between multiple renters.

From the landlord perspective, there will of course be some cases in which the property is owned under a 'joint tenancy' or 'tenancy in common' arrangement, with two or more parties owning a stake in the property. People may pool their capital with friends or business partners to purchase buy-to-let property and share the rental income, or buy together as friends then move on, and keep the property as a shared investment.

In practice this is unlikely to have a significant impact on take-up, as there does not appear much evidence that most properties are jointly owned and it would probably be uncommon for one party to hold out when the other wishes to sell. The only issue here would be around the CGT receipts, which would be slightly lower due to each party benefitting from their own Annual Exempt Allowance. But overall, this should not be a major problem.

WHAT ABOUT PEOPLE WHO BUY THEIR PROPERTY THEN FLIP IT?

Under a basic tenant-and-landlord CGT rebate, there is an obvious possibility that some people will take advantage of this policy in order to make a quick buck, for example by buying then selling back to their landlords, or becoming a landlord themselves, or otherwise 'flipping' the asset.

The goal of this policy is not to see properties sold – it is to increase the number of homeowners. Therefore, we propose that properties that move across into ownership under this policy should have a covenant placed that they can only be held by, and sold to, owner-occupiers, for at least 10 years. This would ensure that these properties would remain available for ownership in future rather than return to the rental sector.

Restricting those who use this scheme to having to stay in that property (as occurs with Right to Buy) would be less sensible,

given that often people will want to move, and some people will find themselves owning properties they had only envisaged living in for a few years. It would not only be unhelpful, but might restrict take-up of the scheme.

We also suggest that acceptance of the Help to Own offer should automatically disqualify the recipient from future government assistance to get on the housing ladder. In other words, if you take the additional 6.66% premium and then cash in the value, you will have made a quick buck – but you will then be unable to participate in Help to Buy, shared ownership or any other policy initiative that relies on government subsidy, either alone or as part of a couple, for the rest of your lifetime. This is about a one-off opportunity for young people to get on the housing ladder for the long term – not a short-term hand-out.

WON'T THIS GUM UP THE WIDER HOUSING MARKET?

The announcement of this policy will almost certainly slow the housing market in the short term, because it will divert some people from buying other properties to purchasing their current home. This will reduce demand temporarily. In addition, any landlord thinking of selling will hold off until this scheme is in place, as they would otherwise pay a CGT bill in full and estate agent fees they could otherwise save. It will further slow the wider housing market by making it harder for housing chains to be formed: the second-hand market will keep moving, but at a slower pace.

In terms of the impact on prices, this is not necessarily a bad thing – most people want house price to remain stable or fall. But in terms of transactions, there is a negative potential consequence. There is a long-term correlation between housing transactions and housing supply: when the former slows, the latter tends to fall.

This is one reason why we at the CPS are undertaking separate work on increasing the volume of housing transactions. In addition, the shared ownership scheme described above would significantly increase the number of transactions in the new-build sector in particular, an area the Letwin Review is heavily focused on.

WOULD THIS SCHEME INFLATE PRICES?

There is an obvious risk that this policy would simply inflate prices of the properties bought, which would reduce the benefit to those purchasing such properties. Landlords would charge tenants a higher price because they would be obtaining a large deposit at a reduced rate. This could inflate the value of the properties being bought to take out almost all the gain in equity.

While even this could arguably benefit tenants, since they would have the deposit and could purchase a home and start paying off a mortgage, it is not what this proposal aims at and would be excessively generous to landlords.

Fortunately, we can use the second-hand market to set the price of each property under this scheme. We suggest that the Royal Institute of Chartered Surveyors would set a base price for each property sold under Help to Own, rather than asking tenants and landlords to negotiate a price. This should be done with reference to the wider second-hand market locally, which will continue to see transactions taking place – and should see prices remain fairly stable while the Help to Own scheme is operational.

Given the volume of transactions we hope for, these valuations could be on a bulk basis and therefore at a fairly low fee (e.g. £200 or so). The landlord and tenant could then transact at this price, or, as discussed

further, a tenant swap could occur.

Fortunately, because both sides would benefit from the sale, both sides should be keen to undertake it, and to accept the price suggested – though they would of course be free to change their mind if the valuation differed sharply from their expectations.

WHO WOULD DECIDE THE EXACT SALES DATE?

Given continually changing prices in areas, for example as transport connections, regeneration, new housing and other developments take place, the tenant and landlord would have to both agree on a sale and valuation date within the one-year period proposed – from 2020-1. In many cases, a tenant may want that sooner than the landlord, since they will be paying rent until they purchase. But forcing the landlord to sell early would be unreasonable, just as forcing a tenant to buy sooner than they can raise the 3.33% equity would be deeply unfair. So a compromise where both are happy is necessary.

Therefore, the landlord and tenant should agree a step-by-step process towards the final sale date. It may be that many landlords will choose the final date possible, ie the end of March 2021, to take advantage of house price appreciation and extract the maximum amount in rent before selling – but this is not a huge burden on tenants. Tenants will still be obtaining 10% of the equity on that date, and they will also be able to start planning and saving for how they might improve their property earlier on. Some landlords may also want to sell and move on earlier – and if early indications are that everyone will sell at once, measures to stagger this could be devised.

The likelihood of a spike in sales towards the end of the one-year offer period also means that if operational issues arise at the start of the scheme, these can be ironed out early on – particularly if tenants and landlords are permitted to register their interest from March 2019 as proposed earlier.

WHAT IF THE GOVERNMENT IS STILL WORRIED THAT THE POLICY WILL COST TOO MUCH?

As set out in the previous section, there is strong evidence this policy should generate money for Government. However, rather than implementing this at once, the Government could implement it in phases of three months. If after the first three months it was found that the funding was not sufficient for the government to afford a 6.66% equity stake for tenants, then the scheme could be tweaked to accommodate this.

If absolutely necessary, for example, the Government could offer a 5% equity stake to tenants and then a 5-year loan for the remaining 1.66%, or a 4.66% equity stake with a 2% loan. The tenant would still contribute 3% equity themselves, so this will ensure tenants still receive a 10% equity stake. If the tenant wanted, they could contribute the remaining 1.66% directly, or the Government could issue specific low-interest bonds (e.g. NSI one-year bonds are currently at 1.5%).[75] This drop in the support for tenants would cut the cost to Government by roughly a quarter.

Although the government will still be funding a 6.66% equity stake if tenants takes up the offer, it will receive a steady flow of extra income each year for 5 years as tenants pay back the loan. The average house price is currently £228,384.[76] So a 2% loan would be around £4,560. The cost of making 250,000, 500,0000 and 1,000,000 such loans against an average

house price is below. Because this would be for a specific purpose, secured against collateral, this would not be seen as a general increase in borrowing – and would be negligible in the context of overall borrowing, at just over 0.5% of the total size of Government spending even at the 1,000,000-loan mark.[77]

How much would 2% loans cost in short term borrowing at an average UK house price?

Number of loans	Total cost
250,000	**£1.14bn**
500,000	**£2.28bn**
1,000,000	**£4.27bn**

WHAT IF PEOPLE DON'T WANT TO BUY THEIR CURRENT HOME?

Some people might not want to purchase their current home, while being keen on becoming homeowners in general. In addition, a tenant living in a more expensive property might not want shared ownership and might be prepared to trade with another tenant in a less expensive property. In addition, some people might want to move for jobs, or move to a different area – since they only envisaged living in the rental property for a short while.

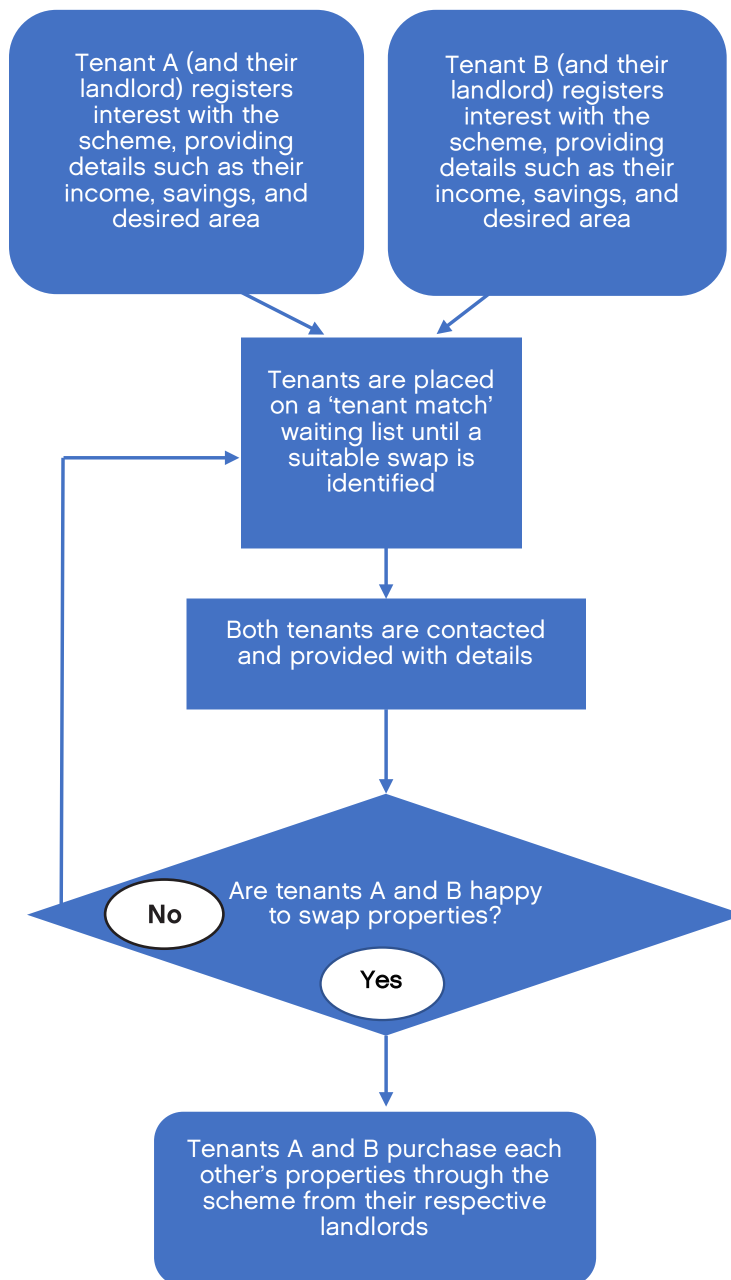
To this end, the Help to Own policy should allow tenants to trade the home that they are living in with other tenants – if both parties agree to the swap. This should be possible by creating a marketplace for tenants who are interested in purchasing a home, but are unable or do not want to purchase their existing property. Allowing individuals to swap in this way would improve outcomes for all concerned, and without it, fewer tenants would take advantage of this scheme than could be the case.

This could be arranged via online portals such as Zoopla and Rightmove, with a small fee paid for those who wish to swap, and the system providing a 'tenant match' service, taking the relevant details, identifying suitable matches, and liaising with tenants to facilitate swaps. There could also be a fee (e.g. £500 or £1,000) for people who want to swap their property – enough to discourage everyone simply doing this on a speculative basis and covering the cost of administering such trades.

75 Government Growth Bonds, *National Savings and Investments*, July 2018

76 UK House Price Index for June 2018, *HM Land Registry*, August 2018

77 Total Managed Expenditure is currently around £791bn, see Public Finances Databank, Aggregates (£bn), *OBR*



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WHAT ABOUT SOCIAL RENTERS AND THOSE RENTING FROM FRIENDS/FAMILY?

Social renters would not be subject to Help to Own, because the property is not liable for CGT in the way that private rented properties are. However, there is already the Right to Buy for those living in council houses, even though it has been substantially watered down in recent years – and the Government made a manifesto pledge in 2017 to create a new generation of fixed-term Right to Buy. (It also promised, in 2015, to extend the Right to Buy to those living in properties owned by housing associations.) In other words, the policy described in this paper is necessary – but not sufficient.

There are separate issues for those who will not be able to take advantage of this – those who are renting with a friend who owns the property, or who are living with their parents or other members of their family in order

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to save for a deposit. The Government should therefore continue to look at ways to increase shared ownership more widely, and consider other policies, such as supporting custom-build and self-build, which can often be much cheaper than buying traditional new-build or second-hand homes, to support these groups.

Yet it is important to note that since families tend to pool support for those who need to get on to the housing ladder, helping just one family member by using this scheme will have knock-on benefits. Research by Legal & General has found that this year, the Bank of Mum and Dad is set to be the equivalent of a £5.7 billion mortgage lender, with 27% of all buyers to receive help from friends or family in 2018, up from 25% in 2017.[78] This means if one child is living at home and one child is renting and can take advantage of Help to Own, the child that is renting will be helped onto the ladder and the family can focus its resources on the remaining child.

THIS IS GREAT FOR PRIVATE RENTERS – BUT DOES IT REALLY SOLVE THE WIDER HOUSING CRISIS?

There is an overwhelming need to ensure that housing supply rises to – and, crucially, remains at – a level of around 250,000-300,000 or so homes a year for the foreseeable future. The Centre for Policy Studies has already made many suggestions for how this might happen, and will continue to do so.

Without such action on housing supply, Help to Own can only – in generational terms – be a temporary solution.

But fortunately, this policy will at the very least not make things worse: not only does it create more homeowners, which should be a crucial goal of national policy, but it does little to encourage price rises (unlike Help to Buy) and in fact it should encourage house price stability.

Table showing what people want in relation to house prices

	% that want prices to…		
Poll	**Fall**	**Remain Stable**	**Rise**
BBC-ICM (2008)	28	46	22
Propertywatch-ICM (2009)	30	34	32
NHF-YouGov (2010)	28	34	33
Shelter-Populus (2013)	29	42	28
AVERAGE	**29**	**39**	**29**

78 'The Bank of Mum and Dad', *Legal and General*, 2018

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There is in fact strong evidence that people are supportive of stable house prices – and have been for a long time now. This makes perfect sense. A stable housing market means you can move easily, not worry about prices shooting up or collapsing, and if you want, move to a larger home if your income grows (or downsize and release equity if you want to move to a smaller home). The polling data is clear.

If anything, the public appear to have become more in favour of house price falls than stable house prices. Recent polling by ComRes for the Centre for Policy Studies found that, by a margin of 63% to 19%, Britons now think house prices in their area are too high – rising to 79% vs 9% in London.[79] In another poll earlier this year, YouGov found that 49% of Britons – just under half – would back the government attempting to bring down housing prices significantly in their local area, compared to 36% who would disapprove.[80]

This policy will mean that most people might have a foot on the property ladder, but this is only likely to strengthen the desire for stable prices, since it is foolish to want prices to rise if you want to trade up to a better house in due course.

By reducing the numbers who do not own property, and substantially reducing the number of landlords, Help to Own would further reduce the numbers who want prices to rise or fall substantially – because the former would no longer be desperate for house prices to fall so that they can buy, and the latter would no longer be relying on second homes as a source of income or equity that could be further leveraged to expand investment portfolios. This encouragement of broadly stable nominal house prices – flat year after year – can only be a good thing.

79 'CPS Housing Poll, September 2018'
80 Housing Survey Results, *YouGov*, November 2017

6. Conclusion

This paper has set out how to offer 4.7 million households, or 9 million working age adults, the opportunity to buy their home – or at the very least a stake in it. With nearly nine in 10 tenants saying that they would like to be homeowners, it is likely that a huge number of those renting will want to take advantage of this scheme.

This paper has focused throughout on incentives rather than punishments – giving landlords reasons to sell their homes to their tenants, rather than trying to force them into doing so. That is because we believe in rewarding people for doing the right thing.

Ultimately, if people want to hold on to property, the Government cannot stop them. Nor should Government want to eliminate the private rented sector. It can encourage through taxation and other changes, but if some landlords wish to remain landlords, then even if their tenants would like to buy, they should be allowed to do so. As one of the founders of the Centre for Policy Studies once declared: *'If a Tory does not believe that private property is one of the main bulwarks of individual freedom, then he had better become a socialist and have done with it.'* [81]

Part of the desire to own property is that it gives individuals control over their lives – but extending it while undermining property rights is a hollow victory.

We believe that the Help to Own scheme is fair, necessary and thought-through. The cross-subsidy, caps and shared ownership elements treat tenants equitably rather than giving windfalls to some and nothing to others.

Without a scheme like this, the recent fall in home ownership will take a very long time to reverse and the resentment in our society will grow.

For too long those who have worked and done the right thing have been excluded from ownership, in large part due to ham-fisted interventions by government. It is time to help give people control over their housing situation, and their futures – and support their aspiration for a better life.

81 'My Kind of Tory Party', Margaret Thatcher, originally published in *The Daily Telegraph*, 30 January 1975, *Margaret Thatcher Foundation*

Appendix - Calculating appreciation in the private rented sector

Appreciation

Estimating the amount of appreciation of properties in the Private Rented Sector (PRS) is difficult because it depends when the current PRS properties were purchased by their current landlord. Data on this is not plentiful in an easy to assess format. Therefore, a number of different approaches have been used to estimate how much properties in the PRS have appreciated by, the methods for which are set out below.

While none of these on their own are ideal, all of them are reasonable attempts to estimate the figures, and the fact that together they tend to come up with a similar set of figures can give us reasonable confidence. In addition, as is discussed further down, there is a likelihood that the properties most likely to be involved in this scheme are likely to be the more expensive ones, and the appreciation is likely to be higher in high value areas, which means that the average appreciation weighted by value is likely to be higher than these methods produce – and so rather than this being clearly cost neutral – it is likely to be valuable.

Method 1: Flow of Private Renters (UK-Wide)

Using data from the ONS on English household tenure trends (Section 1: Household tables see here), we took the annual change in the number of households who were private renters as a proxy for the number of houses that landlords acquired that year. Note here we have excluded the years where the number of private renters fell, since we're interested in when properties were purchased not when they were sold.

We then calculated the percentage of private rental properties that landlords acquired each year as a proportion of the total size of the PRS in 2016/17 (4.92 million households). We then find out the appreciation of average house prices for each of the last 27 years (back to 1991). Using English house price data from the Land Registry office the weighted appreciations are calculated, which were then summed to estimate average appreciation across the entire PRS.

However, an adjustment had to be made because according to this method 67.9% of the PRS was purchased in or after 1991, which means that about 32.1% was purchased in years prior to 1991. However, trying to include this 32.1% of the PRS in our calculations distorts the results, and leads to an unrealistically high appreciation (310% average appreciation if we go back to 1980 when tenure trends data begins).

To solve this, we excluded the 32.1% of properties bought before 1991, and adjusted the weightings (so the 67.9% is now 100% of the sample - i.e. the sample shrinks so the weights for each individual year will rise). While not ideal because it means that we are possibly being too cautious with this approach, it is preferable to be too

cautious than too radical. In addition, there might be hidden churn – where properties are entering the sector in later years, cancelling out ones leaving the sector – which would reduce the figures in the other direction and make this figure to radical. Having adjusted the weightings, we get an estimated average appreciation of 79.8%.

Method 2: CML 2016 survey of landlords (England)

Data from The Confederation of Mortgage Lenders on when UK landlords acquired their first property was used as a proxy for how long properties have been held for (see table 19 here). This data breaks down into 7 categories: <1 year, 1-2 years, 2-3 years, 3-5 years, 5-10 years, 10-20 years, and >20 years. Central years were selected for each category, i.e. for the category 3-5 years, the year 4 was selected.

Appreciation for each of the categories was then calculated using historical house price data from Nationwide (see 'UK House Prices Since 1952' from here). Note here that for the category >20 years we are conservative and use appreciation for 21 years.

We then weighted appreciation for each category according to the percentage of landlords that had purchased their first property at that point. By doing this we can calculate an estimate for the average appreciation that a landlord in the PRS will have seen on their property, which this methodology gives as 66.3%.

Method 3: HMRC Capital Gains Tax analysis (UK Wide)

HMRC publish estimates for the UK of the value and volume of asset disposals chargeable for Capital Gains Tax purposes, broken down by asset type and by the length of time for which the asset was held (see table 14.8 here).

This paper uses the figures released in October 2017, the data itself is based on Capital Gains Tax payments going back to 2014-15, which are the most recent years available in this format.

We take the class 'UK & Foreign residential/ land' as a proxy for properties in the PRS. For this category of assets held for between 15 and 20 years (this is the approximate median period that PRS properties have been held by landlords, based on data on household tenure trends – about 57% of the PRS was purchased in the last 15 years, 4% in the 15-20 period, and 39% over 20 years ago), the average chargeable gain as a percentage of the final disposal value was 42%. This means that the property has appreciated in value by 72.4% relative to the original purchase price (100-42 = 58. 42/58 x 100 = 72.4%). While this might be a slight overestimate given it is not quite the median, this is balanced by the fact the methodology also includes commercial properties which have increased at a slower rate than residential ones, and would therefore pull the figure down.

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Appreciation methods and average appreciation

Appreciation Method	Average Appreciation
Method 1: Flow of Private Renters	79.8%
Method 2: CML 2016 survey of landlords	66.3%
Method 3: HMRC Capital Gains Tax analysis	72.4%
Average Appreciation	72.8%

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Of course, this figure should be treated with a pinch of salt – the real figure is likely to be between 65-80% or so with a reasonable margin of error on either side. But the point is that even the low figure is one that would more than cover the necessary appreciation – and this ignores the fact regional differentials as well as the incentives to sell being stronger for those who have higher CGT, as discussed below. It is very hard to adjust for this differential effect in regional prices and so we do not attempt to do so, but what is clear is that any differential effect works in our favour rather than against us, moving us even further over the necessary threshold of 65%.

REGIONAL DIFFERENTIALS AND WHO IS MOST LIKELY TO SELL UNDER THE SCHEME

We know that the greatest appreciation is occurring in parts of the country where values are highest. The graph below shows how appreciation has been most extreme in the South of England and especially in London. It uses data taken from the Nationwide regional quarterly price index. (See https://www.nationwide.co.uk/about/house-price-index/download-data).

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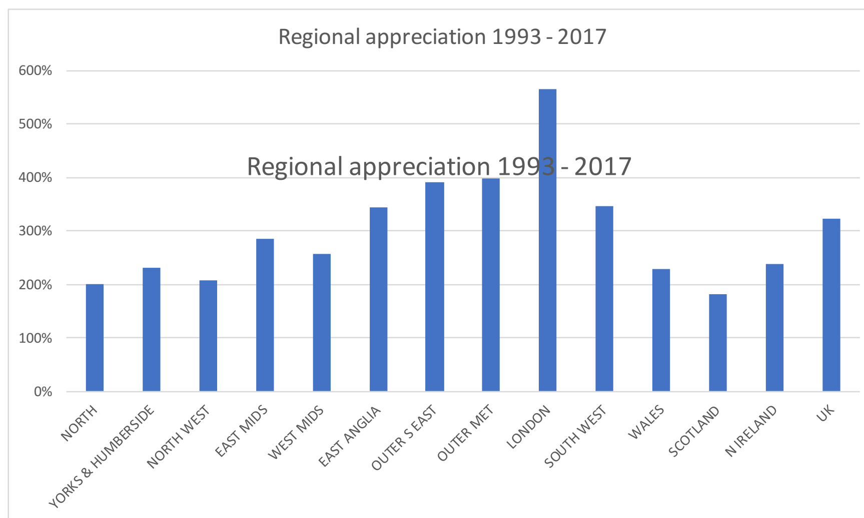

600%
500%
400%
300%
200%
100%
0%

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This matters because where the appreciation happens creates a greater or lesser level of capital gain and so Capital Gains Tax liability. It is worth repeating the point made earlier about the same 50% appreciation being skewed toward low or high value areas.

Low value High Value Average appreciation
100 200
125 25% 350 75% 50%

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Case 1: 50% appreciation skewed toward high value areas

Low value		High Value		Average appreciation
100		200		
125	25%	350	75%	50%

Case 2: 50% appreciation skewed toward low value areas

Low value		High Value		Average appreciation
100		200		
175	75%	250	25%	50%

Low value High Value Average appreciation
100 200
175 75% 250 25% 50%

In case 1, the total CGT liable at a rate of 28% - simplifying by just assuming this was the rate payable across both – would be £67,000. In case 2, the CGT liable at a rate of 28% would be just £35,000. In fact, the CGT would be even higher in case 2 anyway, because the annual exempt allowance and the 18% rate would apply to part of it.

What is important is the regional differentials – which again show that there is a clear correlation between average capital gain and high value areas - London, then the wider South lead – areas where housing is more expensive – with cheaper areas like Wales and the North East seeing much smaller gains. This is also shown in the table below.

This all matters because there is likely to be a bias toward those with greater gains wanting to take advantage of this scheme, since they are more likely to benefit from the substantial relief (and of course 2% estate agent fees will be higher in absolute terms). The table below is from Countrywide estate agents and shows sellers across England and Wales making a profit when selling their buy-to-let property. Of these, not all will see the necessary gain of around 60 to 65%, but the average is what matters – as calculated above.

Table on landlord gains on current sales across the country[82]

Region	Owner-occupiers			Landlords		
	Average capital gain (£)	Average capital gain (%)	Proportion making a gain	Average capital gain (£)	Average capital gain (%)	Propor makin gai
London	£250,744	108%	98%	£263,523	96%	95%
South East	£128,714	70%	97%	£107,513	61%	96%
East of England	£114,605	76%	98%	£83,820	58%	94%
South West	£82,801	59%	94%	£56,773	45%	90%
West Midlands	£56,737	52%	92%	£39,679	39%	85%
East Midlands	£56,168	56%	93%	£38,485	44%	87%
North West	£47,897	53%	86%	£33,935	43%	78%
Yorkshire & Humber	£45,146	50%	85%	£31,921	38%	76%
Wales	£43,437	55%	86%	£30,490	42%	78%
North East	£32,458	43%	77%	£24,427	33%	70%
England and Wales	£92,886	64%	92%	£87,263	54%	88%

It is important to note that the longer a property has been held the greater the gains are likely. According to the Countrywide figures above the average capital gain for landlords is 54% at present as for those selling, the average length of time they calculate the property is held for is 8.5 years – well below the average time held across the whole sector. This shows that those who make particularly substantial capital gains in high demand areas may not want to to pay CGT but instead just keep collecting

82 'What next for buy-to-let?', *Countrywide*, Spring 2018

rent in places like London where rents have risen faster. This is why a scheme like this is necessary in order to encourage sales.

In addition, as we have already noted, some may choose to sell their properties under the existing Private Residence Relief scheme, and properties which do not have any equity gains at all and which are valued at over £150,000 would not be able to take part in this scheme. While this is not likely to be a huge number – since the Countrywide estimate above shows less than one-in-ten properties has not risen in value since it was bought as a rental property, and many of these are likely to be in low value areas and worth less than £150,000, what it means is that the necessary increase in value will be slightly less than the 60% to 65% discussed, because these properties will be excluded from the scheme and therefore this will raise the average higher than it otherwise would be.

DETAIL ON CAPPING RELIEF FOR LARGE PROPERTY PORTFOLIOS

While not related to the appreciation directly, it is worth showing this calculation in more detail as it is fairly complex. The number of landlords was taken from 2013/14 income tax data (found here). This data stops in 2013/14, but the PRS has grown substantially since then, and if the trend of landlord numbers from the 3 years before 2013/14 is used to extrapolate an estimate of the number of landlords today this gives 2.1 million. For reasons of simplicity and to bring our estimate in line with other estimates (such as here) we here round down to 2 million landlords.

Assuming the distribution of properties is broadly similar to 2010 and combining this with the total number of landlords in the PRS allows an estimate of how many will fall into each of the relief bands, i.e. we estimate how many landlords own 5 – 9 properties. To test this, we sum the 6 categories we get a figure of 4.637 million houses for the size of the PRS, only 54,000 less than the actual figure of 4.692 million, a difference of just over 1%, which should reassure us that the assumptions we have made are reasonably approximate to reality.

According to data from HMRC (See table 14.8 here) the average chargeable gains on non-financial assets as a proportion of the value of the asset at disposal was 32%, equal to £68,357.76 for the average house (average house price for May 2018 is £213,618 according to Nationwide). With the full 33% relief applied to all landlords this would save the average landlord £6316.26 per house.

Because the cap works on the total value of the portfolio being sold, we can ignore those being sold at 18% and so a lower reduction in their CGT bill of 6% (rather than the 9.33% CGT reduction that landlords paying the 28% rate will receive) – they will not be caught by the cap since the number of properties and their value would be low. To take account of this we will take all single property landlords out of the calculation. This is not entirely accurate, because some single property landlords will pay substantial capital gains and other multiple landlord properties may only pay the 18% rate, but it will serve as a proxy.

Using the above we calculate the total amount of CGT all the remaining landlords will pay if they receive the full 33% relief, and then also the total amount of CGT when relief is reduced for large property portfolios. We then take the difference to work out how much this cap will save in total.

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