Taxing Times: A Fairer Deal for Future Generations

A WPI Economics report for Fairer Share

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About WPI Economics

WPI Economics is a specialist economics, data insight and public policy consultancy. We are driven by a desire to make a difference, both through the work we undertake and by taking our responsibilities as a business seriously. We provide a range of public, private and charitable clients with research, economic analysis and advice to influence and deliver better outcomes through improved public policy design and delivery.

About the authors

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Mark is a Consultant at WPI Economics, covering projects on data analysis and economic and policy research. His research has included analysis and reports on topics including poverty, net zero, technology, housin g and transport. He has previously worked as a researcher in the criminal justice, charity and higher education sectors. Mark studied Philosophy, Politics and Economics at the University of Oxford, where he served as President of the Lincoln College Junior Common Room.

Matthew Oakley, Director

Matthew is a respected economist and policy analyst, having spent well over a decade working in and around policy making in Westminster. Before founding WPI Economics Matthew held a number of roles including Chief Economist and Head of Financial Services Policy at the consumer champion Which?, and Head of Economics and Social Policy at the think tank Policy Exchange. Matthew also led the Independent Review of Jobseeker's Allowance sanctions that reported to Parliament in 2014, and previously spent eight years at the Treasury.

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Guy is a quantitative researcher/data analyst with extensive experience delivering research and insight within government, academic, and policy/advocacy contexts. Most recently Guy was Principal Statistician in the Policy Research team at Which?, and prior to that covered issues such as the labour market, socio-economic deprivation, neighbourhood regeneration, and offending and criminality in his ten years working in Government for Home Office, ONS, and DCLG.

Acknowledgements

We thank everyone who gave feedback on the work and for their input and guidance, including:

- Neal Hudson of Residential Analysts, Built Place and Henley Business School
- Ian Mulheirn of the Tony Blair Institute for Global Change
- Onward
- Bright Blue
- New Economics Foundation

Endorsements

"The cost of housing is holding back the younger generation. We need to get more housing onto the market for them. A Proportional Property Tax is key to this. It would replace council tax which has become increasingly regressive and is particularly hard on young people. I welcome this important report."

Lord Willetts, Conservative peer, and president of Resolution Foundation's intergenerational Centre, said:

"The current system of council tax is outdated and unfair. Introducing a simpler and fairer property tax system could reap huge benefits for millions of people across the country making it transparent and fairer for all, and especially lifting a disproportionate burden from the young. As we look to level up across the UK, I can think of a few measures that would better demonstrate to people that this government is determined to deliver on its promises to people who lent us their vote in 2019."

Simon Fell, Conservative MP for Barrow & Furness

"For too long older generations have used housing as a form of investment: the result has been sky-high house prices, and older generations feeding off the incomes of young people. We welcome the ideas in this report which, if adopted, will help to tackle the unearned windfall gains made by older generations."

Angus Hanton, Intergenerational Foundation Co-Founder

"We welcome this new report from the Fairer Share campaign, pushing for bold reform of property taxes in England to help support levelling up and intergenerational fairness. It is vital that property taxes are reformed to address the multiple, complex challenges of local authority funding, devolution and fair tax treatment for families and businesses and this report represents an important step forward for the debate."

Alfie Stirling, Director of Research & Chief Economist at the New Economics Foundation

"The UK's housing market is woefully inefficient, and there is now a growing consensus that our current system of property taxes only exacerbates these issues further. This timely report makes a clear case for how an alternative approach can free up much-needed housing stock and help struggling young people to get on in life."

Sam Robinson, Senior Researcher at Bright Blue

FOREWORD

The Government's levelling up agenda has been repeatedly framed as a means of addressing regional inequality in the UK, but this report makes clear that such an approach does not go far enough. Up and down the country, people are being let down by the housing market and our unjust and outdated council tax regime. In short, the levelling up agenda is doomed to fail without a fundamental reform of our residential property taxes.

Thankfully, there is now widespread agreement that the property tax system in England is not fit for purpose. Earlier this year academics and think tanks from across the political spectrum united to state that the current council tax system is a "wealth tax" on poorer parts of Britain and is in urgent need of a comprehensive overhaul. MPs on the Housing, Communities and Local Government (HCLG) Committee have also backed an overhaul of council tax, which they rightly called out as "an increasingly regressive tax that penalises those in more deprived areas".[i]

This report is the latest addition to a growing backbone of research showing why fixing our broken property tax system should mean introducing a proportional property tax (PPT). It comes as there is also growing agreement that the time has come to open the door to PPT, with the HCLG select committee the latest group to call on ministers to consider the option.

Our previous work has shown that a PPT set at a flat rate of 0.48% of a property's value would be revenue-neutral for the Treasury. It would be simpler, fairer, and mean lower monthly bills for most people. We found that around 76% households across England would gain, with some of the most deprived parts of the country benefiting the most. In other words, PPT would be good news for voters in 'red wall' seats and beyond.

We can now also see how PPT would also be good news for families and for the many young people who are currently getting a terrible deal from the housing system.

The figures here are shocking. Young people today are far more likely to have to rent privately than their parents did at the same age. In *The Pinch*, Lord Willets' landmark account of intergenerational relations in Britain, it similarly noted that today's young people are half as likely to own a home aged 30 as Baby Boomers were at the same age. The Conservative peer also sets out the significance of this shift. "Alongside the pension, the home is the biggest asset most of us ever own. It shapes routes to adulthood as well as the distribution of assets across generations," he states.[ii]

But it gets worse. More than one in five 16-24 years old live in overcrowded conditions, with this figure rising to 46% in London. More than one in five 25-34 years old live in concealed households, with parents or other relatives. Yet we also have a situation in which young people spend a greater proportion of their income on council tax than most other groups of working-age adults.

It is also shocking to see just how inefficient the housing market is. Across England, there are many thousands of vacant homes that have been left empty for more than six months. There are also many thousands of largely unused second homes, reflecting the fact that wealthy homeowners have been able to borrow against assets, taking advantage of low interest rates in recent years to expand their property portfolios and buy homes for their children. On top of this, there are millions of under-occupied homes with two or more spare bedrooms.

It does not have to be this way. We can now see that PPT would free up empty homes and increase the number of transactions in the market, allowing those in under-occupied homes to find a better fit with knock-on effects throughout the housing market.

In our most optimistic assumption around 600,000 homes would be released throughout England. This could mean up to a quarter of a million one and two bedroom homes freed up for young people who most need them, along with many more family homes. In London, up to 47,000 one and two bed starter homes could be released - more than any other part of the country. Meanwhile under PPT 8.7 million renting households would be removed from property tax.

Following the recent reforms to National Insurance one Government minister explained, "We're misjudging the elderly. They don't want bribes: they want a better country for their grandchildren, the ones we're now taxing to death. We could have found a better way out if we had thought."[iii]

I hope that other ministers take note. The Conservative Party manifesto plans "to redesign the tax system so that it limits arbitrary tax advantages for the wealthiest in society." The Government has set great store by its levelling up agenda and throughout his Budget earlier this year, Rishi Sunak stressed the theme of fairness. But if levelling up is to have fairness at its heart then it cannot just be about geography, with action only focused on a handful of so-called priority areas.

Instead, real levelling up will require policies that help people in constituencies from Streatham to Sedgefield and from Canterbury to Copeland. This report is the latest evidence that PPT would do just that. It shows that up and down the county PPT would be a much fairer property tax system than the one we currently have.

Andrew Dixon, Fairer Share

EXECUTIVE SUMMARY

Young people are less likely to get the living space they need compared to older people and the inter-generational divide is growing. It is not just that young people are much more likely to need to rent privately than was the case for their parents at the same age. In general, young people are increasingly living in worse conditions and paying relatively more for the privilege.

Overcrowding is one way that many young people experience the problems in this country's housing market. Another way is through concealed households in which individuals or families live with their parents or other relatives. The result of poor housing can often be worse physical and mental health outcomes for young people, delayed life milestones and difficulties in accessing work.

At the same time, because of the manifest inefficiencies in the English housing system, there are millions of homes not being used to their full potential. In many cases this is the result of under-occupied homes with two or more spare bedrooms. But the problem is compounded by hundreds of thousands of second homes and long-term empty homes.

In total one in three properties in England are not used to their full potential and our estimations of the size of these properties reveal that many would be better suited for young people striking out on their own for the first time.

The problems in the housing market are made worse by the inefficient way property is taxed in England. Council tax is outdated and unjust, hitting young people and less affluent areas with lower house prices the hardest.

One solution to this problem is a proportional property tax set at a flat rate of 0.48% of a property's value. Across England around 76% of households would benefit from abolishing council tax and stamp duty and bringing in PPT, research has shown. The new system is backed by many prominent think tanks and was recently described by the Ministry of Housing, Communities and Local Government Select Committee as an option that the Government should consider for wider reform of council.

The impact of PPT

Figure 1: Properties made available to alleviating housing issues by the introduction of PPT (over 5 years)

315,000
Additional transactions for the better allocation of space

135,000
Second homes released as primary residences

55,000
Empty homes occupied again

90,000
Homes with planning permission that would not have been built

Source: WPI Economics analysis

Our research shows as well as lowering bills for many people, removing council tax and bringing in PPT has the potential to release hundreds of thousands of homes to help tackle the housing crisis over five years. In many cases these homes would be released as a result of increased transactions brought about by PPT. By increasing the number of transactions, PPT will increase the movement between homes that will allow those in under-occupied homes and those in overcrowded homes to find a better fit. Other homes would be released thanks to more second homes becoming available, empty homes becoming easier to sell and more homes being built sooner.

Our research shows that even under our low scenario assumptions, more than 170,000 homes would be released within five years of PPT being introduced. In our mid scenario this figure goes up to 367,000 and in the high scenario it is 600,000. In this way, PPT would release many one and two bedroom homes suitable for young people, alongside bigger family homes. In the high scenario, this is especially striking as it is estimated that there would be 255,000 one and two bed homes released for first-time buyers. On top of this, there would be a further 249,000 three bed homes for young families to move into.

Box 1: What is Proportional Property Tax?

Introducing a Proportional Property Tax will involve abolishing the following taxes:

- **Council Tax:** an annual charge paid by residents (including renters) to their Council, based on locally set rates and the value of their home in 1991
- **Stamp Duty Land Tax:** a tax of up to 12% of a property's value paid by the buyer

Revenue will instead be raised by a new property tax with the following features:

- A flat annual rate of 0.48% of a property's value
- A 100% surcharge for vacant, second homes and foreign-owned homes
- Responsibility to pay passed on to property owners (i.e. from tenants to their landlords)
- A cap of £100 a month increase in bills at the point of transition
- A deferment mechanism for low-income households (such as pensioners)

In London, the majority of homes released would be one and two bedroom starter homes, with up to 47,000 of these homes released - more than any other part of the country. There would also be a further 24,000 three and four bedroom homes and 8,000 larger homes freed up in the capital in the high scenario. In the North West it is a different story with a higher proportion of family homes. In the high scenario there would be up to 31,000 starter homes, 35,000 family homes and 11,000 larger homes released.

Overall, within all of our assumptions, PPT would lead to the release of both family homes and homes for young people experiencing overcrowding and concealment, with the benefits of PPT on the housing market spread throughout the country.

Introduction: housing and young people

Poor housing is a key source of intergenerational unfairness and major blight on young people's lives. This section shows that:

- The proportion of young people living in the private rented sector has almost doubled in a generation.
- Young people are more likely to be in poverty, and housing costs make them poorer still. 25% of 20-24 year olds are in poverty, more than twice the 11% of over 70s.
- Housing is holding young people back. They are increasing less likely to move for work, and 16% say they will delay or not reach marriage because of housing.

This is a major issue that policy makers need to take seriously.

It is widely acknowledged that Britain's expensive, unfair, and inefficient housing market is experienced particularly poorly by young people:

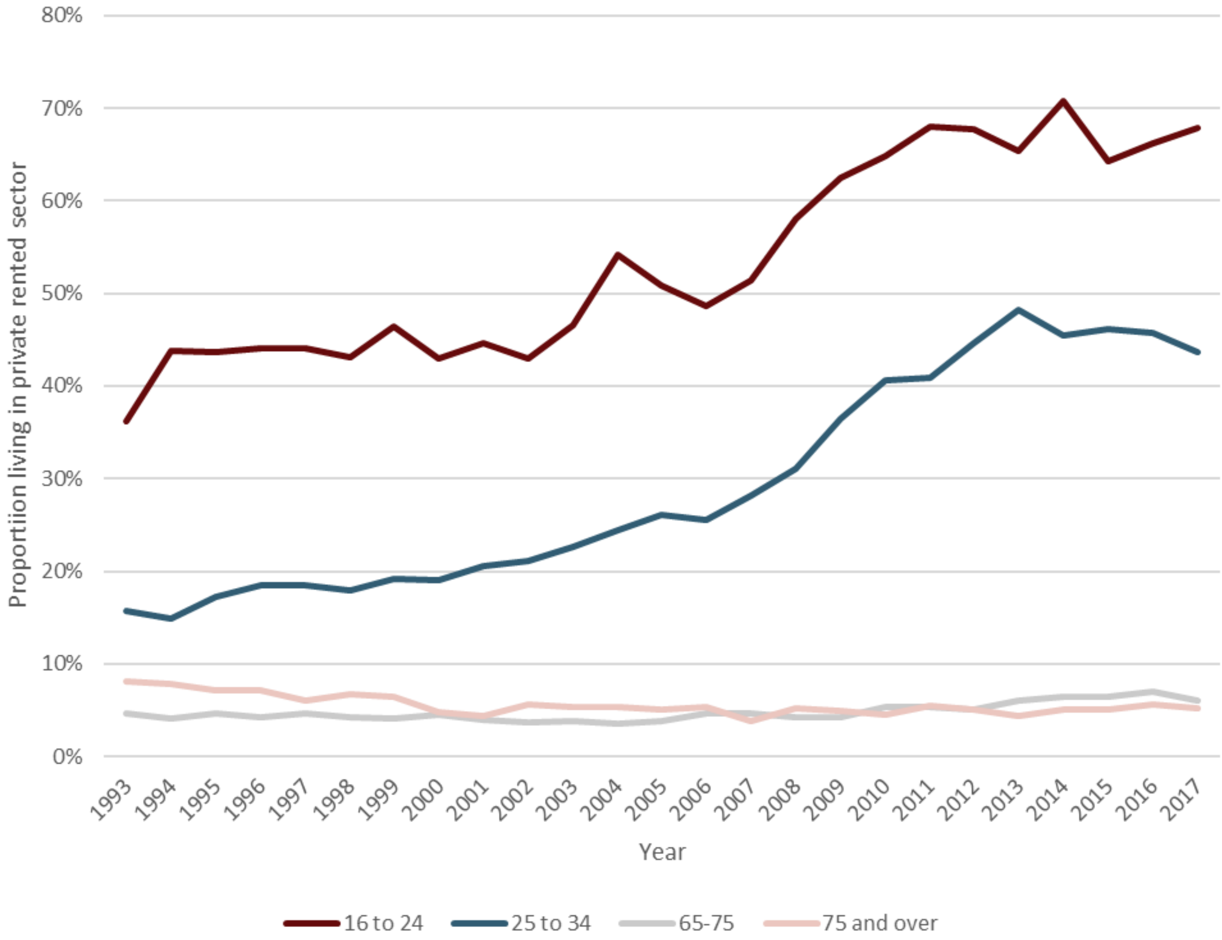
- 27% of 20-34 year olds lived with their parents in 2019, up from 19% in 1998.[iv]
- The average age of a first-time buyer is 30[v], with 9.4% of households led by a 16-24 year old owning their own home in 2018/19, down from 24% in 2003/04.[vi]
- 16-24 year olds in the private rented sector spend 48% of their income on rent, compared to 32% for 55-64 year olds.[vii]
- 52% of households found to be homeless are headed by someone aged 18-35, compared to 9% who were aged over 55.[viii]

In general, younger people live in worse homes, in more crowded conditions and pay relatively more for the privilege.

An intergenerational unfairness

In some respects, it is unsurprising that young people have worse housing outcomes than older people. They have had less chance to accumulate housing wealth and at just a few years out of school or university they are a long way off their peak earnings period which typically falls in someone's 40s[ix]. This means that young people have fewer resources to buy or rent with and at the same time many congregate in city centres where accommodation is more expensive. This is an inequality in housing that has persisted over time, with households headed by 65 year olds and over being more likely to be owner occupied than those headed by 18-29 year olds in every year since 1961, more often than not having ownership rates over double the younger cohort[x]. There is a debate to be had about the degree to which that is a structural inequality that should be addressed and how much it is an inevitable part of an individual's life course. What has changed over the past few decades, however, is that young people are experiencing significantly worse outcomes than older generations did *at the same age.* This makes the challenge an issue of intergenerational inequality where young people are being deprived of what their parents and grandparents may have taken for granted. Figure 2 shows that 36% of 16-24 year olds in 1993 were in private rented accommodation. These people would have been born in the late 1960s/early 1970s. Their children – born in the 1990s and entering young adulthood in recent years are much more likely to need to rent privately with 68% of 16 to 24 year olds and 44% of 25 to 34 year olds renting privately in 2017. Meanwhile, the proportion of over 65s renting privately has remained steady, or even fallen, over the past few decades.

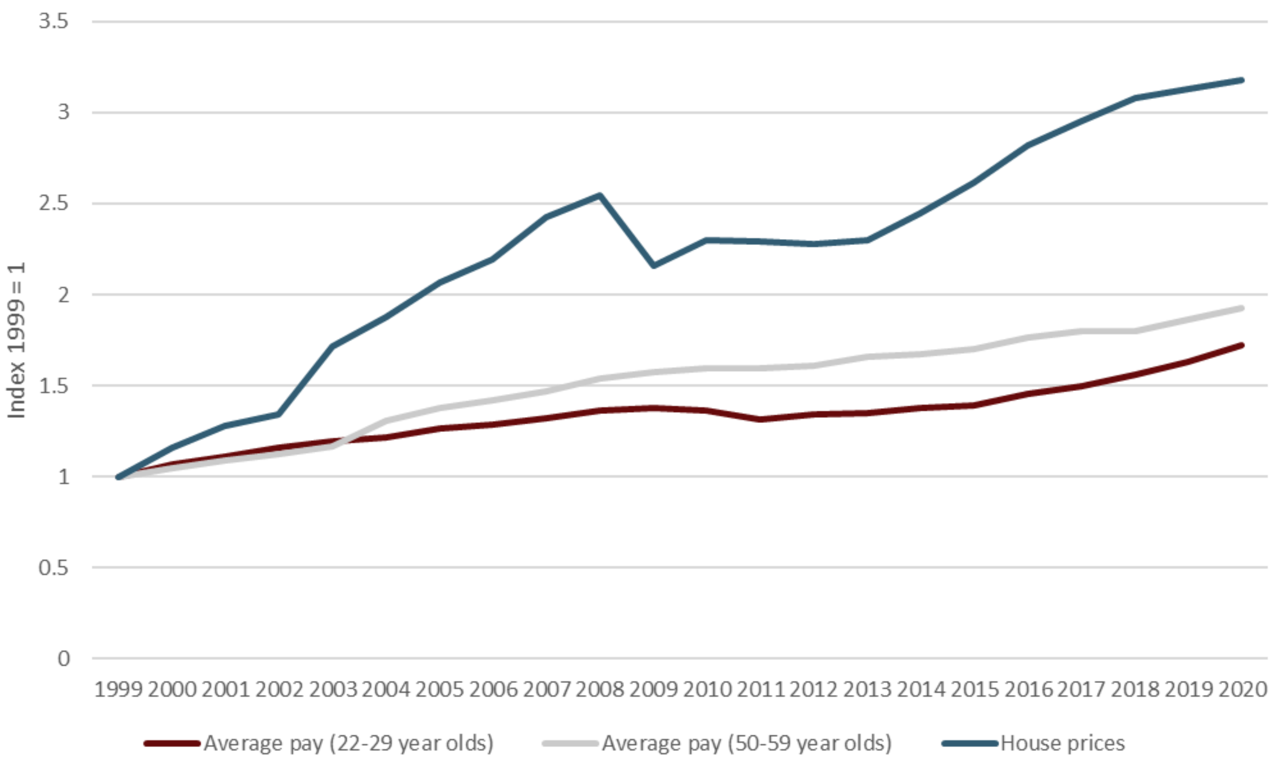
Figure 2: Proportion of people living in the private rental sector over time by age group (England 1993-2017)



Source: Ministry of Housing, Communities and Local Government - Survey of English Housing (1993 to 2007), English Housing Survey (2008 to 2017) via ONS[xi]

Part of the reason for this can be seen in Figure 3. Since the turn of the millennium, house prices have risen significantly faster than wages (increasing by a factor of 3 in twenty years). The wages of young people have risen less quickly than other cohorts. The wages of 22-29 year olds are only 72% larger in 2020 compared to 1999, whereas the increase was 93% for 50-59 year olds. The younger cohort saw a much more significant hit to earnings as a result of the financial crisis. Sluggish wage growth for young people makes rapidly increasing house prices increasingly out of reach.

Figure 3: Index of average pay and house prices (1999-2020)

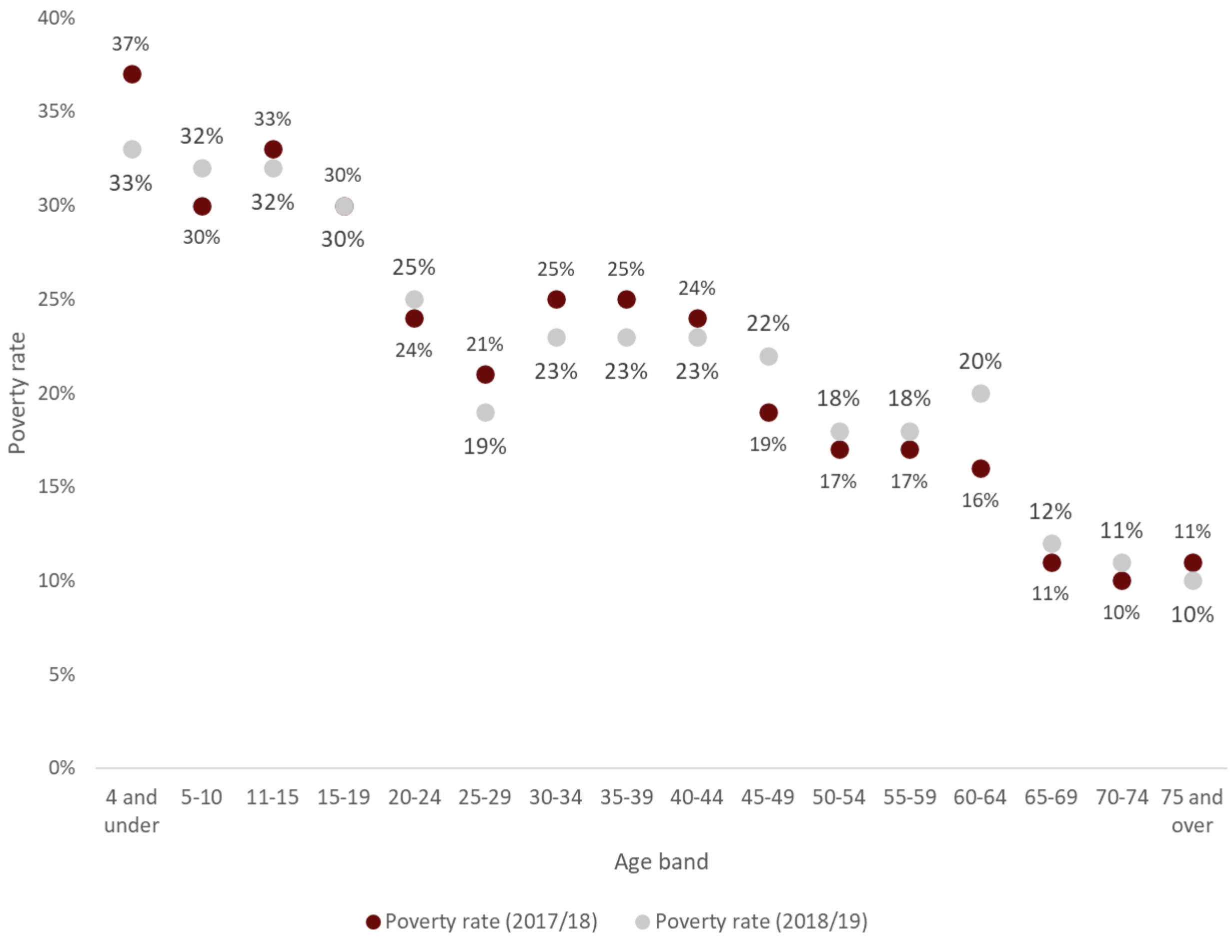


Source: WPI analysis of ASHE via House of Commons Library and HM Land Registry UK House Price Index

The implications of housing for young people

The poor and unfair housing outcomes of young people do not sit in isolation from the rest of their lives. Housing is deeply connected with education, employment, family and wellbeing. Poverty rates provide a measure that allows us to see many facets of quality of life at a glance, and it is indeed the case that younger people are more likely to be in poverty. As Figure 4 shows, children and young people are much more likely to experience poverty than older people, with over 30% of children and teenagers and 25% of 20-24 year olds living in poverty compared to 10%-11% of those 75 and older.

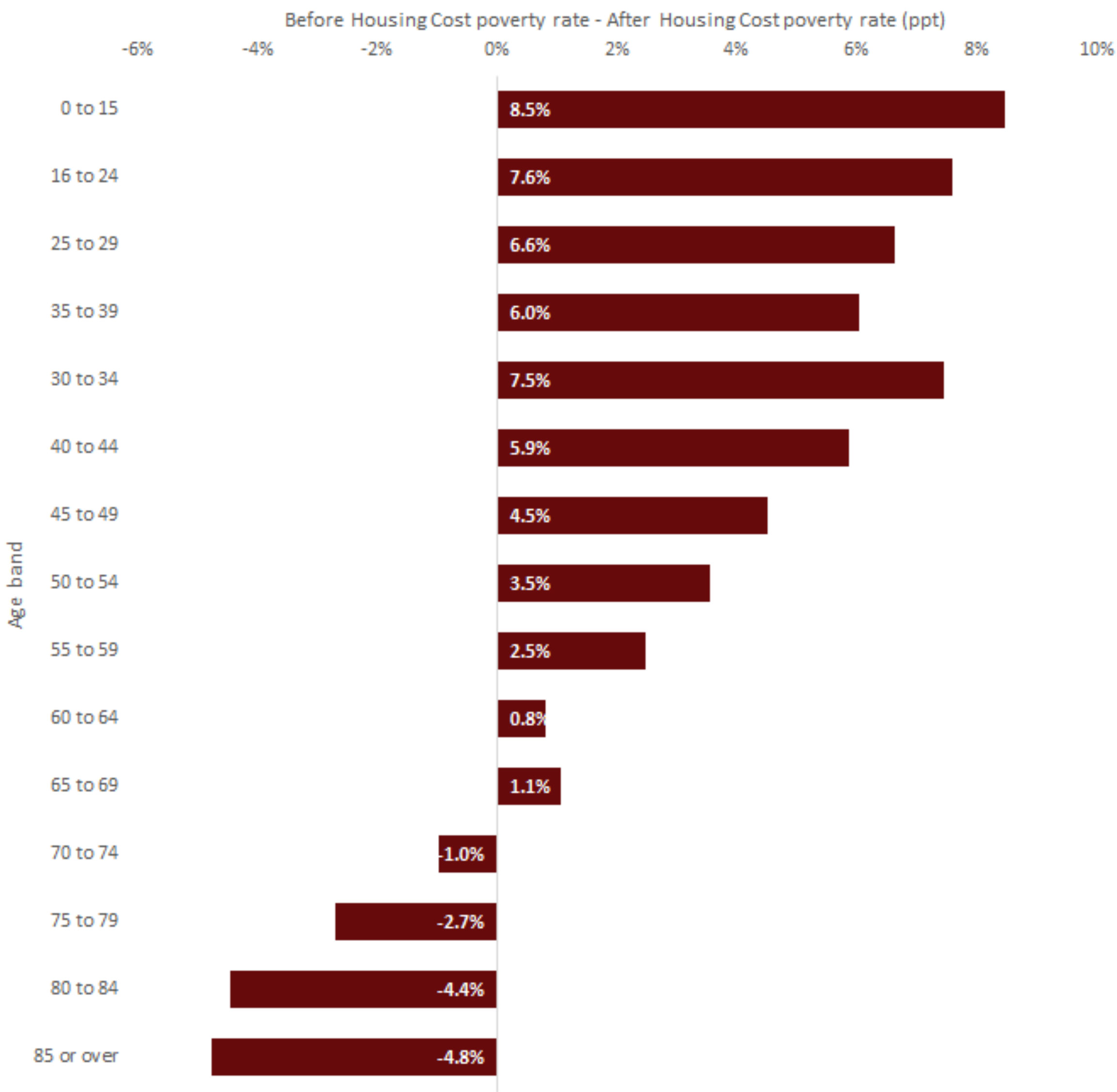
Figure 4: Poverty rates by age group



Source: Social Metrics Commission

Housing costs are one of the main drivers of higher poverty rates among children and young people. Figure 5 shows how poverty rates for different age groups change when housing costs are taken into account. The effect is most prominent for children, but the poverty rate for young adults also increases by 7.6 percentage points when the amount they spend on housing is incorporated into the measure. On the other hand, poverty rates fall when the housing costs of the over 70s are considered. This means that the uneven distribution of poverty seen in Figure 4 would be much more consistent if the amount that young people spend on housing could be reduced.

Figure 5: The impact of including housing costs of poverty rate by age (2017/18-2019/20)



Source: WPI analysis of Households Below Average Income (DWP)

Poor housing outcomes are related to a number of other issues for young people, including:

- Mental Health: Poor quality and overcrowded accommodation is associated with worse mental and physical health outcomes, with 93% of overcrowded families reporting depression, anxiety or stress caused by their living conditions.[xii] Our research shows that 2.7 million 16-35 year olds live in overcrowded conditions.
- Delaying life milestones: 16% of young people say they will delay or not reach marriage and 22% say they will delay or not have children because of housing.[xiii]
- Accessing work: Young people are less likely to move house to start a new job, potentially limiting their earning potential and making the labour market less flexible.[xiv]

Housing issues across the generations

Young people are much more likely to live in overcrowded homes or be unable to form their own household.

- 28% of 16-35 year olds live in “concealed” households, meaning they are likely to want to set up a household on their own, compared to just 4% of the over 50s.
- 20% of 16-35 year olds live in overcrowded homes, more than four times the rate of the over 65s.
- The situation is worse in London, with almost half (47.5%) of 16-24 year olds living in an overcrowded household.

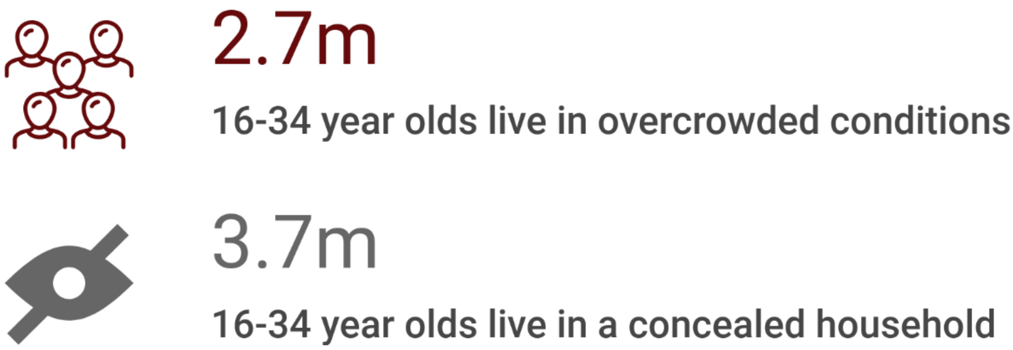
As outlined in the previous section, these poor housing outcomes have severe impacts on young people’s chances and their ability to reach life milestones.

As shown in the previous section, there are many ways that young people experience are negatively affected by problems in this country’s housing market. To quantify and understand the problem in more detail, this section focuses on how two adverse outcomes affect different age groups. They are:

- **Overcrowding:** We class a household as overcrowded if it has too few rooms for everyone to have their own bedroom (or share if they are a couple or certain combinations of related siblings) and in addition to having two communal rooms (kitchens, living rooms etc).[xv]
- **Concealed households:** Concealed households are individuals or families who live with their relatives (often their parents) who might be expected to want to form their own household. This includes couples and lone parents living with other relatives and people aged 20 and over living with relatives. This does not include Houses in Multiple Occupation (HMOs) where unrelated individuals live together (such as in a flat share between friends).

These issues are particularly salient because they directly affect young people’s life chances and wellbeing. Particularly in the emerging post-Covid world where working from home will play a much greater role, having insufficient space will harm many young people’s career prospects and mental health. Living in concealed households delays young people’s full independence and slows down life milestones like forming relationships and starting families. As well as being deleterious to young people’s wellbeing, these issues pose challenges to the future health of our society and economy.

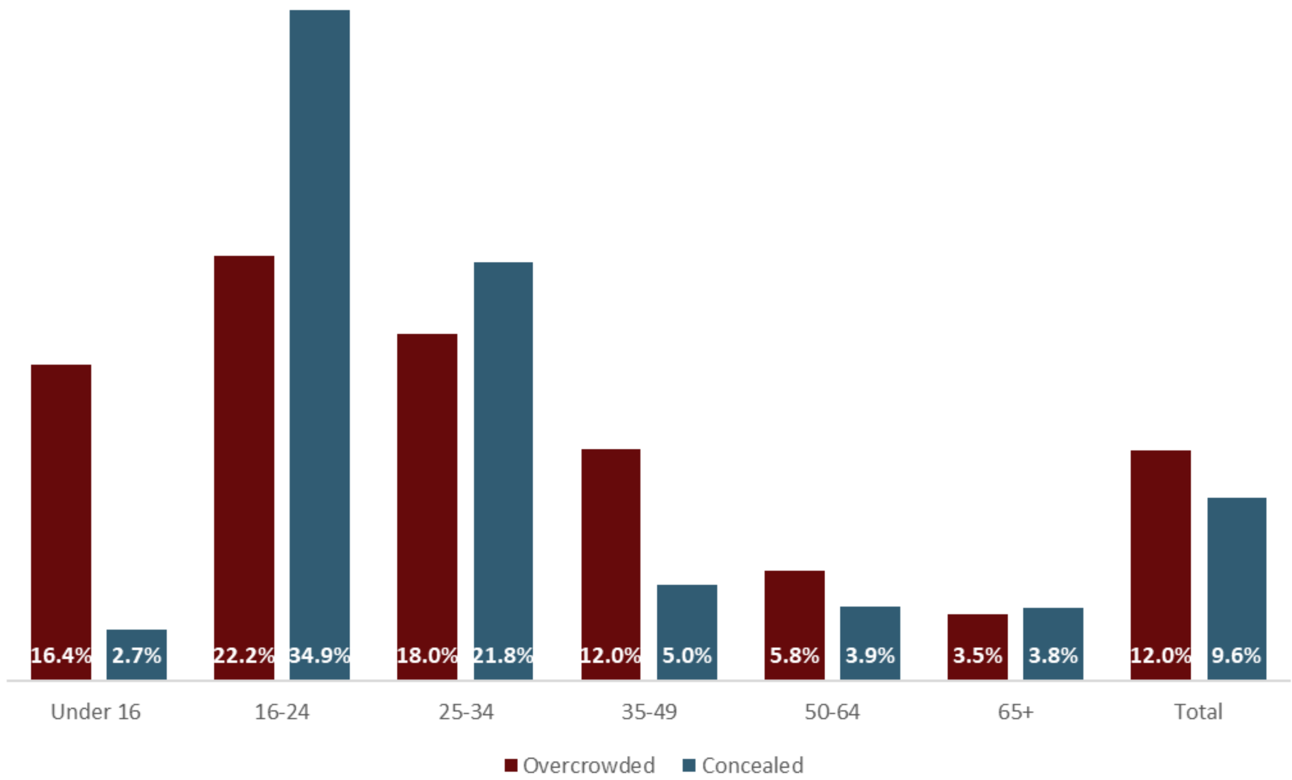
Figure 6: Young people living in adverse housing situations



Source: WPI Economics analysis of 2011 Census and Family Resources Survey

Overcrowding and concealment overwhelmingly impact the young compared to other cohorts. 28% of 16-34 year olds would potentially form an independent household if they had the opportunity, and 20% of this cohort live in overcrowded conditions. Less than 4% of the over 65s are in a concealed or overcrowded household. In total there are 2.7m 16-34 year olds in overcrowded conditions and 3.7m in concealed households. Many will experience both simultaneously – a double hit draining their wellbeing and holding them back in life that is rarely endured by other age groups.

Figure 7: Proportion of people living in overcrowded and concealed households, by age band (England, 2020)

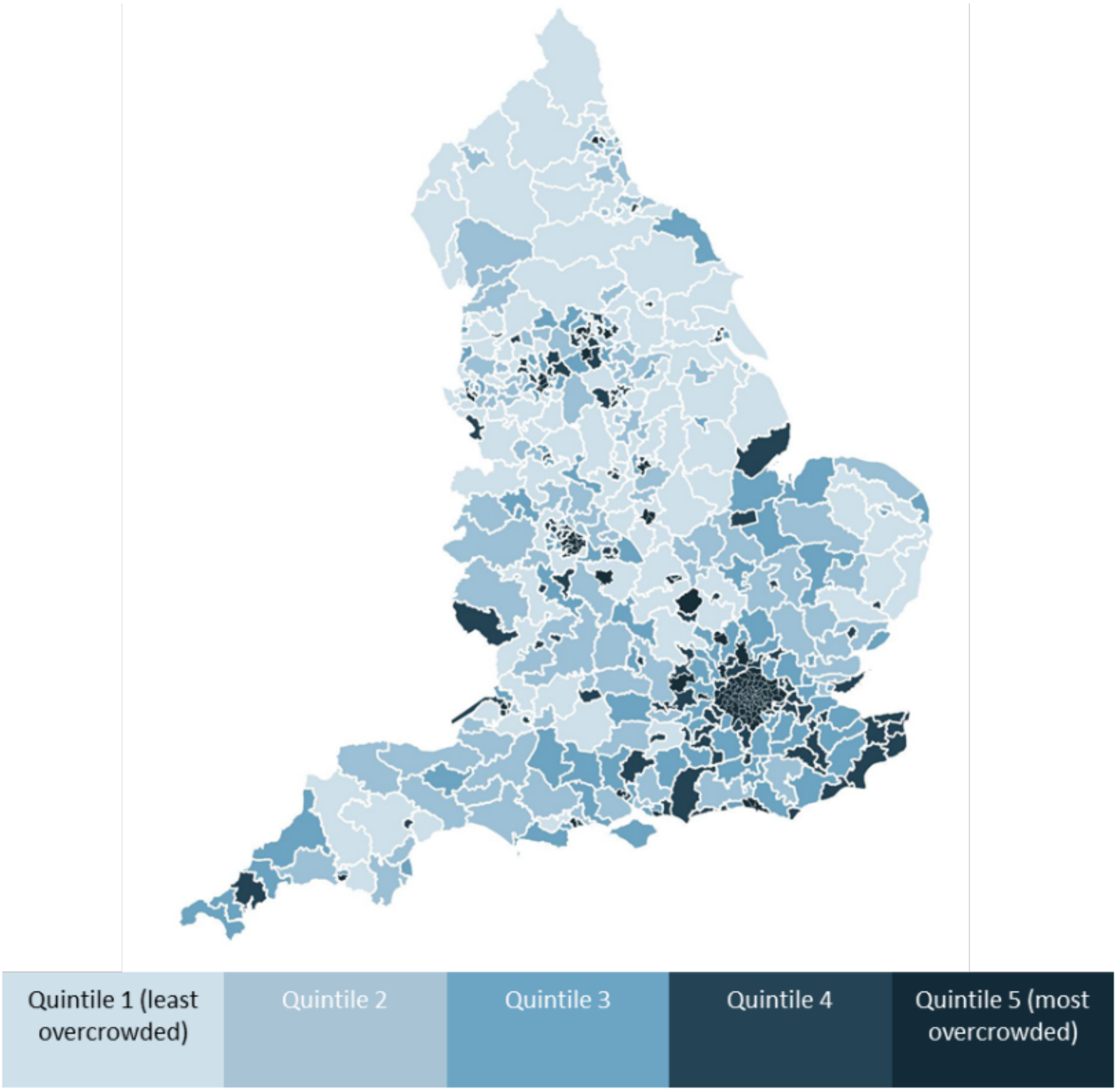


Source: WPI Economics analysis of 2011 Census and Family Resources Survey

The negative outcomes of young people are not evenly distributed evenly across the country, but instead follow the contours of the deeply imbalanced housing market as shown in the map in Figure 8.

- London is the most overcrowded region, with **31%** living in a house without enough space, more than double the national average of **12%** and more than four times the rate of the least-crowded region – **8%** in the North East. The difference is even greater for young people. Almost half (47.5%) of 16-24 year olds in London are overcrowded.
- Young people in London are also the group most likely to live in a concealed household, with **45%** of 16-24 year olds in the capital unable to form a household when they might otherwise be expected to, compared to a national average for the age group of **35%.** Only **3.8%** of over 65s live in a concealed household.

Figure 8: Proportion of young people (aged 16-34) living in overcrowded homes by Parliamentary Constituency



Source: WPI Economics analysis of 2011 Census and Family Resources Survey

Table 1: Proportion of people living in concealed households, by age band (England, 2020)

	Proportion of people living in concealed households						
	Under 16	16-24	25-34	35-49	50-64	65+	Total
East Midlands	2.6%	24.7%	17.1%	3.8%	2.9%	2.8%	7.2%
Eastern	1.5%	37.5%	22.5%	4.5%	3.3%	2.8%	8.7%
London	5.8%	45.8%	23.4%	6.8%	7.0%	10.1%	14.1%
North East	1.8%	30.0%	20.0%	4.3%	2.9%	2.3%	8.1%
North West	1.8%	34.4%	21.5%	4.7%	3.5%	2.9%	9.1%
South East	2.8%	38.9%	26.5%	5.3%	4.0%	3.9%	10.2%
South West	3.1%	29.7%	20.3%	4.7%	3.2%	3.3%	8.2%
West Midlands	1.1%	34.5%	21.5%	4.9%	3.7%	2.9%	9.1%
Yorkshire and The Humber	1.3%	26.8%	17.4%	3.9%	2.9%	2.3%	7.3%
England	2.7%	34.9%	21.8%	5.0%	3.9%	3.8%	9.6%

Source: WPI Economics analysis of 2011 Census and Family Resources Survey

Table 2: Proportion of people living in overcrowded households, by age band (England, 2020)

	Proportion of people living in overcrowded households						
	Under 16	16-24	25-34	35-49	50-64	65+	Total
East Midlands	10.7%	16.7%	10.2%	7.1%	3.4%	2.2%	7.5%
Eastern	11.1%	15.9%	12.4%	7.8%	3.7%	2.6%	7.9%
London	39.5%	47.5%	40.8%	29.7%	18.3%	11.2%	31.5%
North East	9.9%	14.7%	7.7%	6.4%	2.9%	2.7%	6.7%
North West	11.0%	16.3%	10.6%	7.4%	3.6%	2.5%	7.8%
South East	12.5%	18.4%	15.1%	8.9%	4.4%	3.0%	9.3%
South West	9.6%	15.8%	11.0%	6.9%	3.3%	2.1%	7.0%
West Midlands	14.6%	20.4%	13.0%	9.6%	4.5%	2.8%	10.0%
Yorkshire and The Humber	12.5%	19.0%	11.7%	8.1%	3.7%	2.6%	8.8%
England	16.4%	22.2%	18.0%	12.0%	5.8%	3.5%	12.0%

Source: WPI Economics analysis of 2011 Census and Family Resources Survey

Box 2: Methodology for quantifying people in adverse housing situations

Details about the housing situation of people in different age groups at the local level were gathered during the 2011 Census. This was brought up to date using population data to account for the growing and changing population and data from the Family Resources Survey to reflect shifting trends in how people are housed.

Inefficiency in the housing market

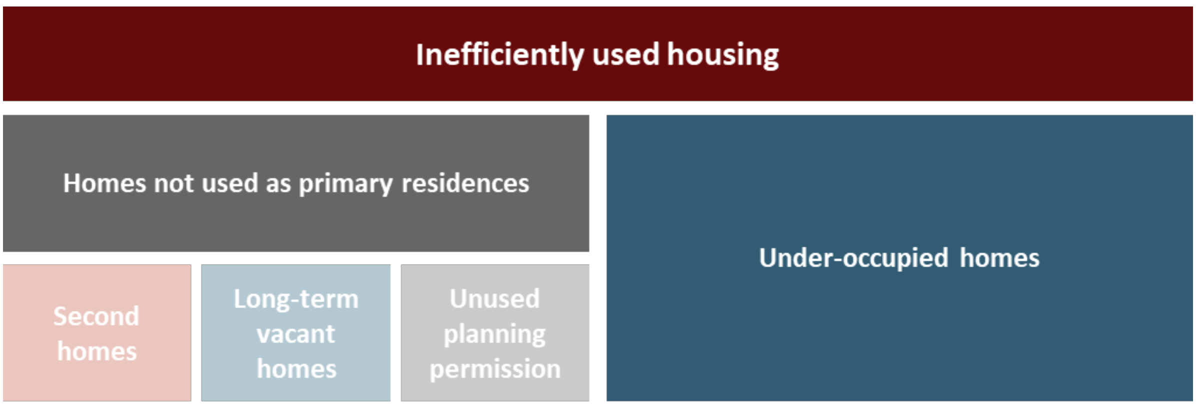
The inability of young people to access the housing they need outlined in the first chapter coincides with the large amount of underused property in England:

- There are 8 million homes with 2 or more spare bedrooms.
- There are 450,000 second homes.
- 270,000 homes have been empty for more than 6 months.
- Developers have planning permission for 190,000 homes where they have not yet started construction.

These hundreds of thousands of potential homes, and millions of homes that could be used better show the potential role that a more efficient housing market has in accommodating young people.

Alongside the many people in England – particularly young people – unable to inhabit the quantity and quality of housing they need, there are millions of homes not being used to their full potential. That good homes can stand empty - or nearly empty - whilst people are living in overcrowded conditions or are unable to move out on their own is a result of the manifest inefficiencies in the English housing system. These inefficiencies are deep-rooted, complex, and interrelated and are a result of a number of factors, including the tax system (as discussed in the next section), planning, regulations and the presence (or lack) of the state in providing housing – the relative importance of these various factors is hotly debated, but the fact that the housing market is not working as it should be is widely accepted. As the previous section showed, these inefficiencies predominantly affect younger people.

Figure 9: Framework for understanding inefficient use of housing

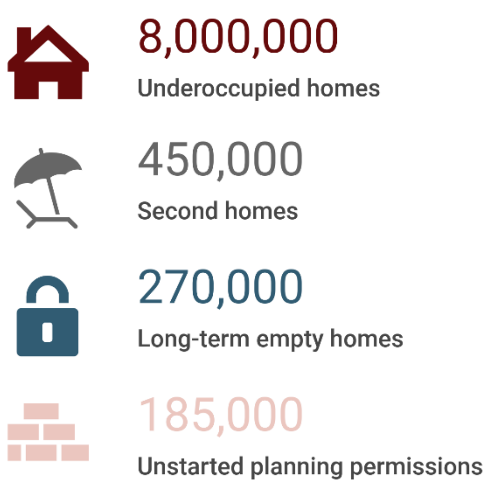


To illustrate the scale of the challenge, we are looking at four ways that the inefficiency of the housing market presents itself:

- **Under-occupancy:** Homes with two or more spare bedrooms. These are homes where the occupiers might downsize if the housing market were different, making space in larger homes available for growing families.
- **Second homes:** Homes owned by individuals but not used as their primary residence or let out to tenants. These include holiday homes and flats used when working in city centres.
- **Vacant homes:** Homes that have been left empty for more than 6 months.
- **Unused planning permission:** Undeveloped sites that have been granted planning permission but where construction has not commenced.

There are significant numbers of these properties and if the housing market operated more efficiently, more space and homes would be freed up for under-housed young people. In total one in three in England – 9 million properties - are not used to their full potential.

Figure 10: Instances of inefficiently used housing (England, 2020)

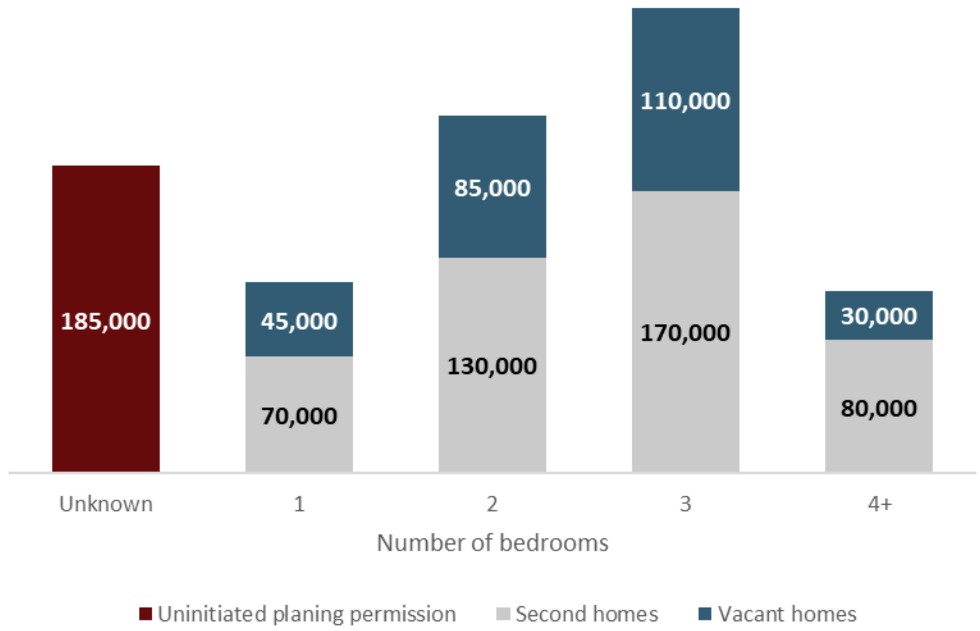


Source: WPI Economics analysis

These figures are particularly relevant to the debate around reforming planning permission (discussed in the next section). Although there may be a role to play for planning reform, there is still some way to go to see the permissions granted under the current system used to their full capacity.

Our estimations of the size of these properties reveal that many would be well suited for young people striking out on their own for the first time, with at least 115,000 one-bedroom homes and 210,000 two bedroom-homes. The 110,000 large properties that are second or vacant homes have an important role to play in accommodating growing families, giving children the space, they need whilst making smaller houses and flats available for young people.

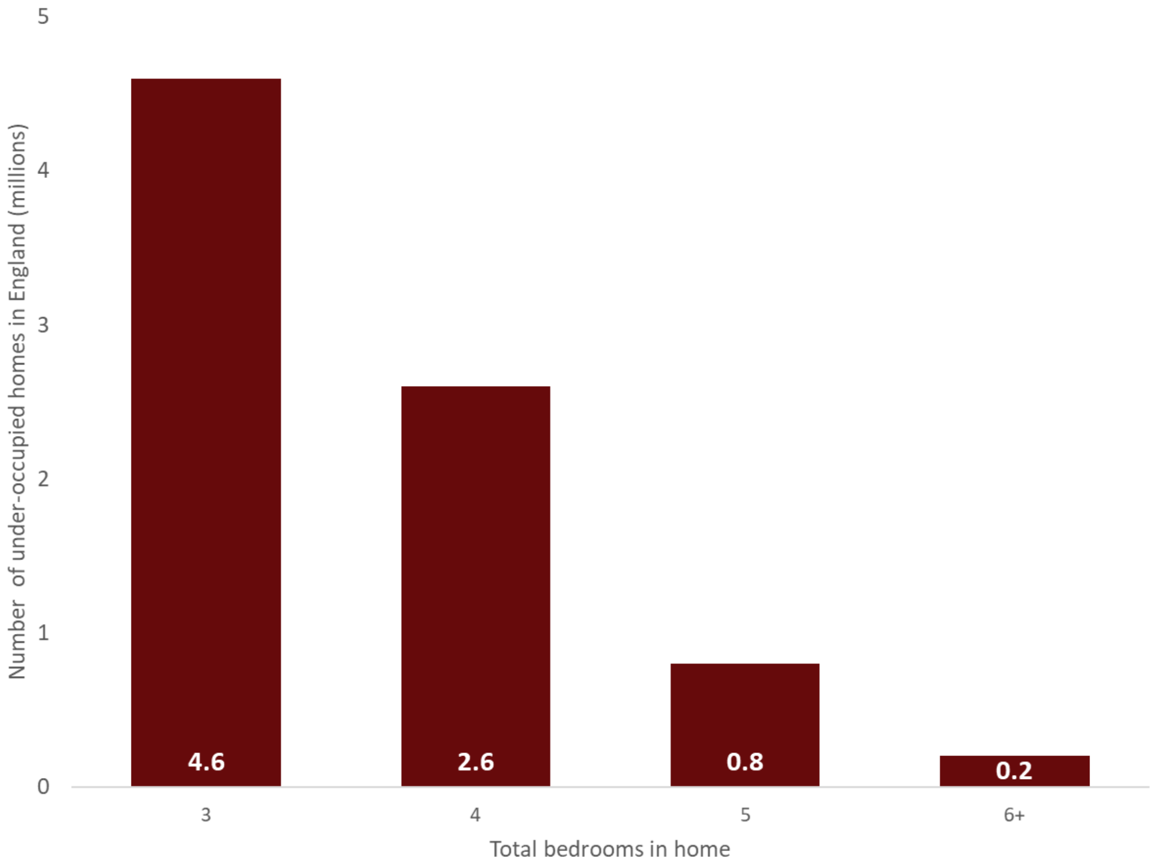
Figure 11: Housing not used as primary homes, by number of bedrooms



Source: WPI analysis of 2011 Census and Family Resources Survey

The greatest manifestation of the inefficiency in the housing market is the sheer number of under-occupied homes. These are properties with two or more spare bedrooms. There are more than 8 million such properties, and although some families will need and use the extra space, much of it goes to waste. In total, there are over 12 million unneeded spare bedrooms[xvi]. Were people distributed optimally among houses, these rooms could accommodate everyone – of all ages – living in an overcrowded home almost two times over. This situation has in part been brought about by the disincentives to downsizing present in the current property tax system. When people find themselves in houses that are too large – because their children have left home, for example – they may need to pay a large amount of Stamp Duty when they move house and the relatively lower tax burden on more expensive properties removes the incentive to move. That is not to say that people should not be able to have spare bedrooms or that people do not value this space. Rather, it is important to recognise that the scale of under-used space we see is so great partly because of distortions in the housing market and that these distortions contribute to housing inequality.

Figure 12: Under-occupied homes by number of bedrooms (millions), England ([date])



Source: WPI analysis of 2011 Census and Family Resources Survey

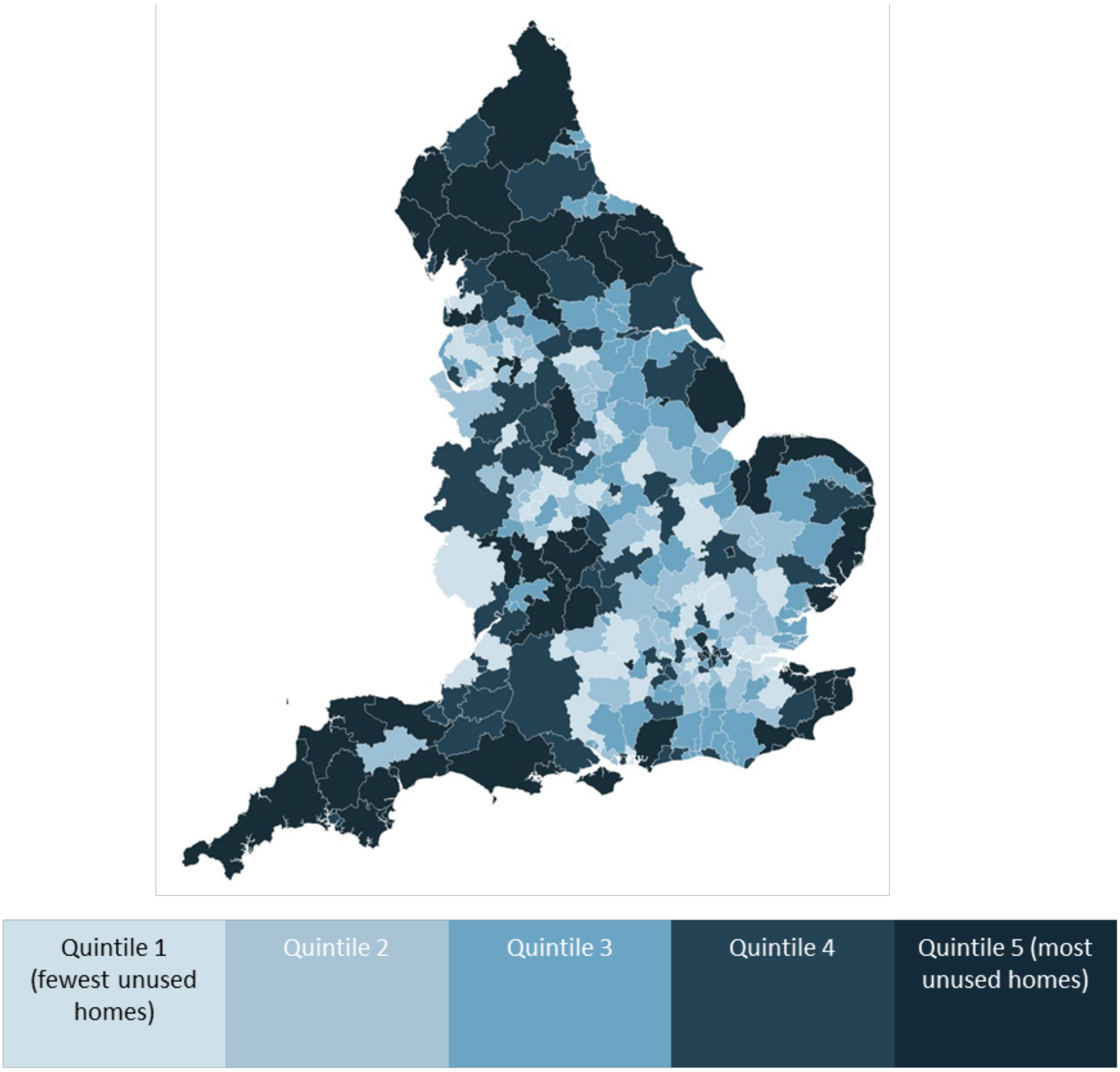
The challenge posed by this evidence of the inefficient use of housing is that areas of the country with the sparest housing capacity are typically not those with the most prevalent housing issues. As shown in the map in Figure 13, the North of England and the West Country are the highest ranked in terms of spare capacity. London, where we saw the highest proportion of young people struggling with overcrowding and concealment has only 21% of its housing stock un-or-under-used, compared to 45% in the South West.

Table 3: Unused (second homes, vacant homes and unused planning permission) by Local Authority

	Uninitiated planning permissions	Second homes	Vacant homes	Under-utilised homes	Total un/under-used space
East	20,000	40,000	30,000	1,000,000	1,100,000
East Midlands	15,000	20,000	20,000	800,000	900,000
London	45,000	60,000	30,000	600,000	700,000
North East	10,000	30,000	20,000	400,000	500,000
North West	25,000	40,000	40,000	1,000,000	1,100,000
South East	25,000	70,000	40,000	1,500,000	1,600,000
South West	20,000	120,000	20,000	1,000,000	1,200,000
West Midlands	15,000	30,000	30,000	900,000	1,000,000
Yorkshire and The Humber	15,000	40,000	30,000	900,000	1,000,000
England	185,000	450,000	270,000	8,100,000	9,000,000

Source: WPI analysis

Figure 13: Map of unused (second homes, vacant homes and unused planning permission) by Local Authority



Source: WPI analysis

Box 3: Methodology for quantifying the inefficient use of housing stock

We estimate the inefficient use of housing stock by combining administrative data from Local Authorities, survey data from the English Housing Survey and information about the houses people live in from the 2011 Census adjusted from trends over the past decade using the Family Resources Survey.

How to solve inefficiencies in the housing market

The failure of the housing market is almost universally acknowledged and ideas for fixing it have been suggested from across the political spectrum. To understand the policy landscape for addressing the inefficiencies outlined above, this section briefly outlines some of the most heard suggestions. None of these suggestions are universally popular and may have more detractors than supporters. We do not attempt to summarise the arguments in full here but give a brief overview to what other people have said.

Increased supply

There are various impediments that slow the building of new housing, particular in the planning system.[xvii] These include the Green Belt (which prevents construction on the outskirts of cities), requirements to include affordable housing and pay for infrastructure through Section 106 agreements and the sometimes-lengthy appeals process against new development. Arguably, if the planning process were more streamlined, more homes could be built, increasing the supply, and reducing the housing pressures. LSE research has estimated that if the planning system in the South East was merely as restrictive as that in the North West, house prices would have been 30% lower in 2015.[xviii]

Social housing

The number of social homes (owned and let at below-market rates by councils or housing associations) has fallen dramatically since the 1980s, from 31% of the total housing stock in 1979 to 17% in 2020.[xix] There has been a simultaneous fall in the number of social homes being built from the high after the Second World War. In 1967, over 200,000 social homes were built, over 50% of total housing construction that year, in 2019 the figure was 40,000, less than 20% of construction.[xx] Greater public involvement in housing could increase the number of decent homes and let them to the people who need them most at genuinely affordable rates, relieving housing pressure for the most in need. Shelter estimates that we need 3.1 million new social homes over the next 20 years.[xxi]

Demand-side intervention

First time buyers face steep hurdles when trying to buy a house, with prices rising much faster than earnings over recent years. Governments have tried various schemes like Help to Buy, Lifetime ISAs and the recent 95% Mortgage scheme to help young people circumvent the challenge of saving for a deposit of tens of thousands of pounds. The Help to Buy equity loan scheme alone has supported the purchasing of 330,000 new build properties worth £91 billion since it was introduced in 2013.[xxii]

Private Rental regulations

Many of the worst housing outcomes are seen in the private rented sector, with the average household in the private rented sector spending 33% of their income on housing, compared to 18% of households with a mortgage.[xxiii] Better regulation of private landlords, from reforms giving tenants better security of tenure to rent controls,[xxiv] might improve the living conditions of the millions of young people privately renting.

Housing consumption tax

Many economists have advocated for replacing the current inefficient property tax system with some sort of "housing consumption tax", which treats housing as a good.[xxv] We consume a certain amount of that good over time, upon which tax is imposed, just like other goods are taxed through VAT. This would allow the government to replace the current inefficient system with one that matches tax burdens to the value that people derive from their homes.

Land value/Proportional Property Tax

Economists have praised Land Value Taxes (a flat charge on the value of land, but not of the buildings on top of it), for its theoretical perfect efficiency thanks to the fixed and immovable nature of land. The Proportional Property Tax takes that same logic – a flat annual charge – but applies it to all of a property's value.

Impact of the Proportional Property Tax

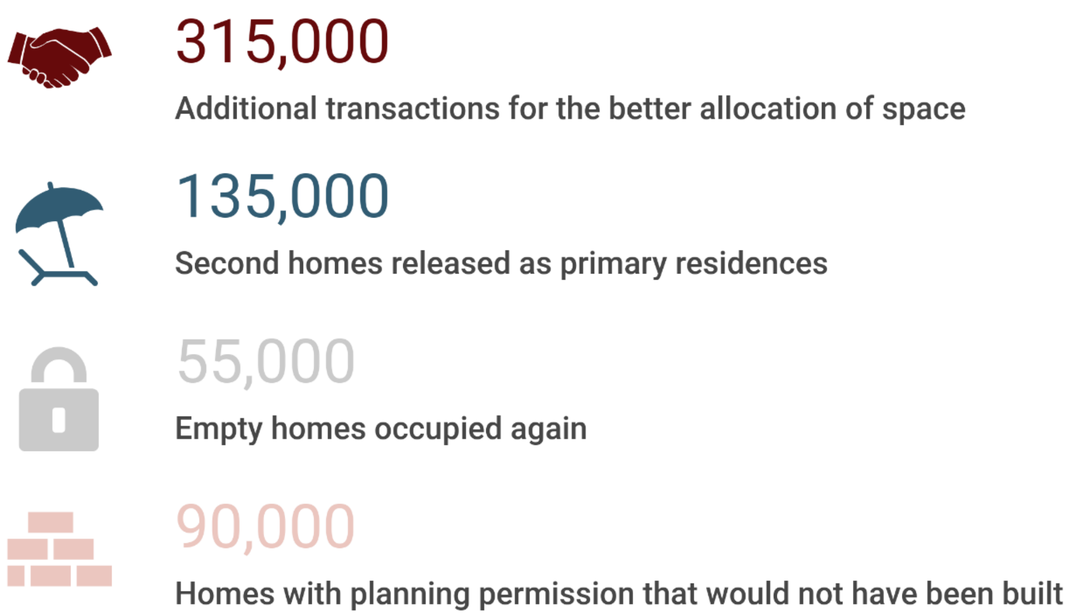
By taxing homes more efficiently, a Proportional Property Tax has the potential to, over the next 5 years:

- Release up to **600,000 homes** that were previously being used poorly (or not at all).
- The most homes will be released in London (80,000) and the South East (100,000), with the South West seeing the greatest proportional increase 3.3%.
- Up to **255,000** of these could be 1 and 2 bedroom properties – starter homes for young people. **249,000** could be three bed homes for growing young families.
- **315,000** homes will be released through increased housing market activity, the other **280,000** from turning empty, second and unbuilt homes into primary residences.

This shows that PPT has the potential to significantly improve the efficiency of the housing market, making homes for hundreds of thousands of young people in the process.

Although the housing market is complicated, many of the issues discussed in the previous sections are made worse by the inefficient way property is taxed in England. Removing Council Tax, which under-taxes people in large properties and Stamp Duty Land Tax, which penalises people for moving homes, has the potential to release between 170,000 and 600,000 homes to help tackle the housing crisis over 5 years. The Proportional Property Tax advocates replacing these inefficient taxes with a 0.48% annual levy on a property's value.

Figure 14: Properties made available to alleviating housing issues by the introduction of PPT (over 5 years)



Source: WPI analysis

Box 4: What is Proportional Property Tax?

Introducing a Proportional Property Tax will involve abolishing the following taxes:

- Council Tax: an annual charge paid by residents (including renters) to their Council, based on locally set rates and the value of their home in 1991
- Stamp Duty Land Tax: a tax of up to 12% of a property's value paid by the buyer

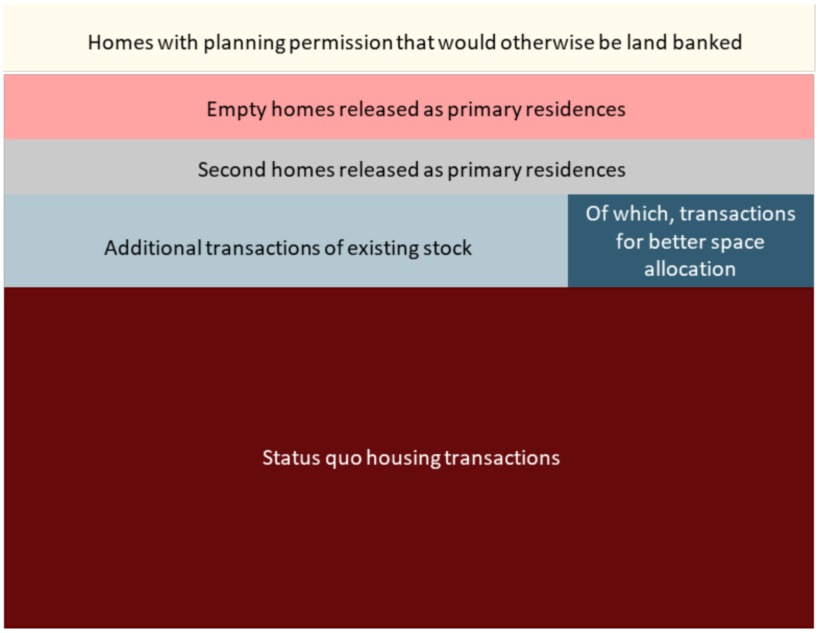
Revenue will instead be raised by a new property tax with the following features:

- A flat annual rate of 0.48% of a property's value
- A 100% surcharge for vacant, second homes and foreign-owned homes
- Responsibility to pay passed on to property owners (i.e. from tenants to their landlords)
- A cap of £100 a month increase in bills at the point of transition
- A deferment mechanism for low-income households (such as pensioners)

We have modelled PPT as making the housing market more efficient and releasing homes for young people experiencing overcrowding and concealment in 4 ways:

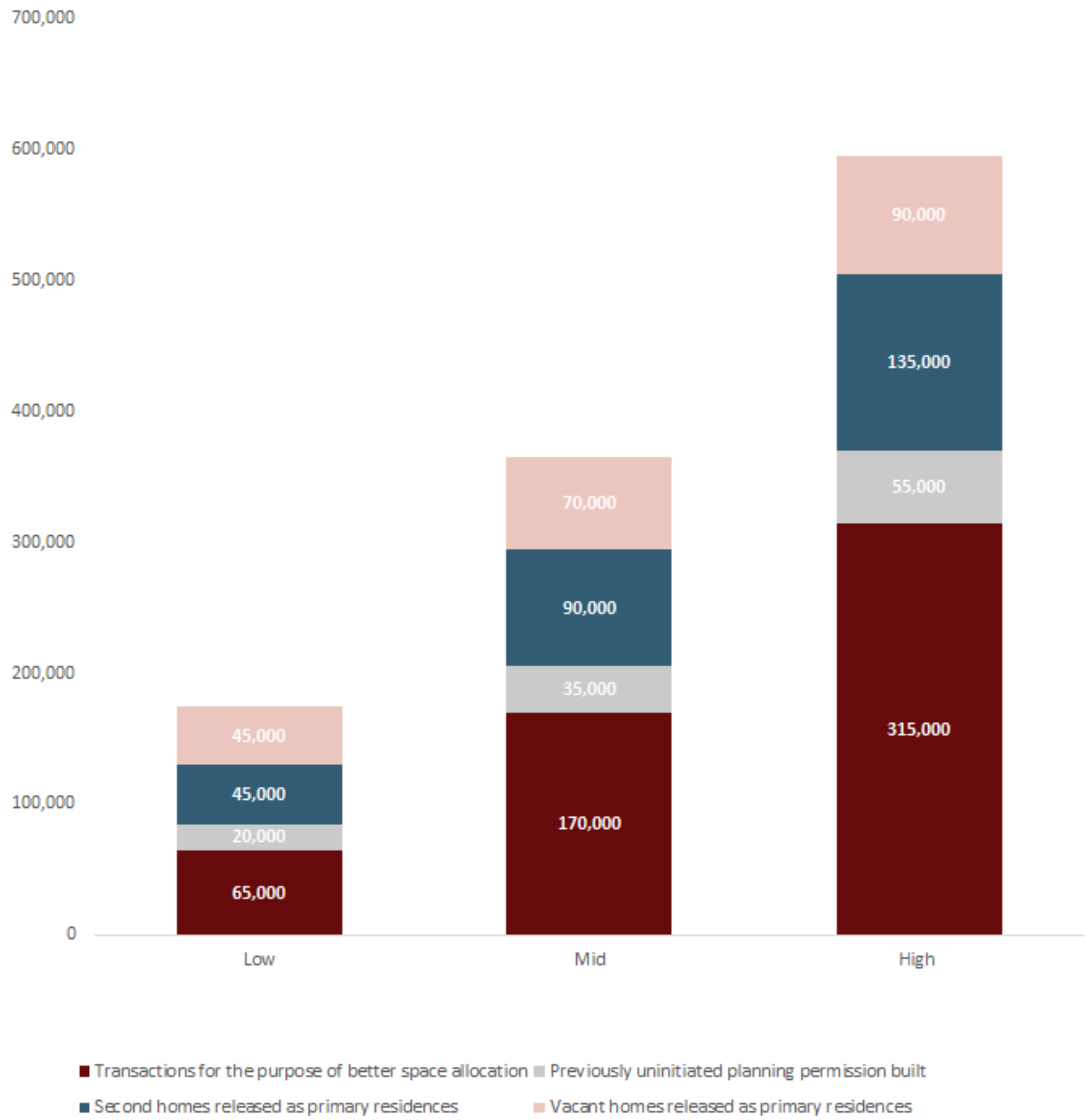
- **Increased transactions:** Around a fifth of house sales are motivated by families seeking a property size that better suits their requirements. By increasing the number of transactions, PPT will increase the movement between homes that will allow those in under-occupied homes and those in overcrowded homes to find a better fit.
- **Second homes released as primary residences:** As second homes are taxed more, fewer people will keep holiday cottages or *pied-à-terre*, making these properties available for families.
- **Empty homes becoming occupied:** Taxing empty homes and making them easier to sell will stop them going to waste.
- **More homes being built:** Developers are sitting on hundreds of thousands of sites that have planning permission but where construction has not started. PPT will encourage them to get building sooner, making homes available for young people

Figure 15: Framework for understanding properties made available by PPT



PPT is a revolutionary change in how property is taxed in England, and there is a degree of uncertainty about how large the impact will be. As Figure 16 shows, even under the most pessimistic assumptions 170,000 families will be helped into a better housing situation over the 5 years after it is introduced. Increasing the level of activity in the housing market (currently around 800,000[xxvi] homes are sold a year) by taxing people who move homes less has the largest impact with 315,000 out of 600,000 homes in the high scenario being made available through a more active housing market that is better suited to households' requirements.

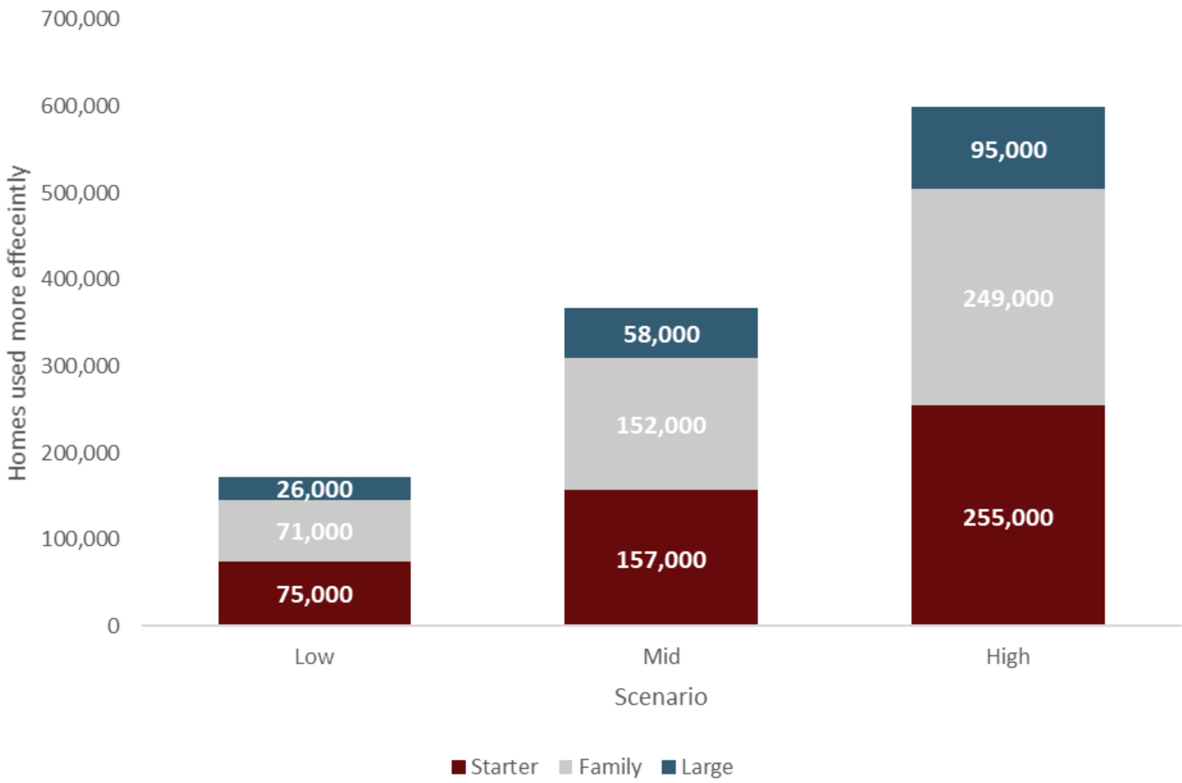
Figure 16: Properties made available to alleviating housing issues by the introduction of PPT (over 5 years)



Source: WPI analysis

It is important to think about who the homes made available by PPT are for. Although housing is very complex and people make complicated considerations around price, location, amenities and other factors when buying a home, we can use the size of the property by number of bedrooms as a proxy for what sort of household it is best suited for. Taking starter homes to be those with one or two bedrooms, family homes as those with three bedrooms and large homes with four or more, we can see that PPT has the potential to make over a quarter of a million (255,000) starter homes and a similar number (249,000) of family homes available. This means that the impact of PPT has the potential to have a large impact on the availability of homes for young people and growing young families.

Figure 17: Housing made available by PPT, by type of home (over 5 years)



Source: WPI analysis

It is also important to consider where these starter and family homes are. Table 1 shows that they are spread across the country, with starter homes particularly prevalent in regions that see young people in the most housing distress with up to 47,000 in London and 40,000 in the South East.

Table 4: Housing made available by PPT, by type of home and region (over 5 years)

	Low			Mid			High		
	Starter	Family	Large	Starter	Family	Large	Starter	Family	Large
East	7,000	7,000	3,000	16,000	17,000	7,000	26,000	27,000	12,000
East Midlands	5,000	6,000	2,000	11,000	14,000	5,000	18,000	23,000	8,000
London	14,000	7,000	2,000	29,000	14,000	5,000	47,000	24,000	8,000
North East	4,000	4,000	1,000	8,000	9,000	3,000	13,000	14,000	4,000
North West	9,000	10,000	3,000	19,000	22,000	6,000	31,000	35,000	11,000
South East	12,000	10,000	5,000	25,000	23,000	11,000	40,000	38,000	18,000
South West	10,000	10,000	5,000	21,000	22,000	11,000	34,000	35,000	17,000
West Midlands	6,000	7,000	2,000	13,000	16,000	5,000	20,000	26,000	8,000
Yorkshire and The Humber	7,000	8,000	2,000	15,000	17,000	5,000	24,000	27,000	9,000
England	75,000	71,000	26,000	157,000	152,000	58,000	255,000	249,000	95,000

Source: WPI analysis

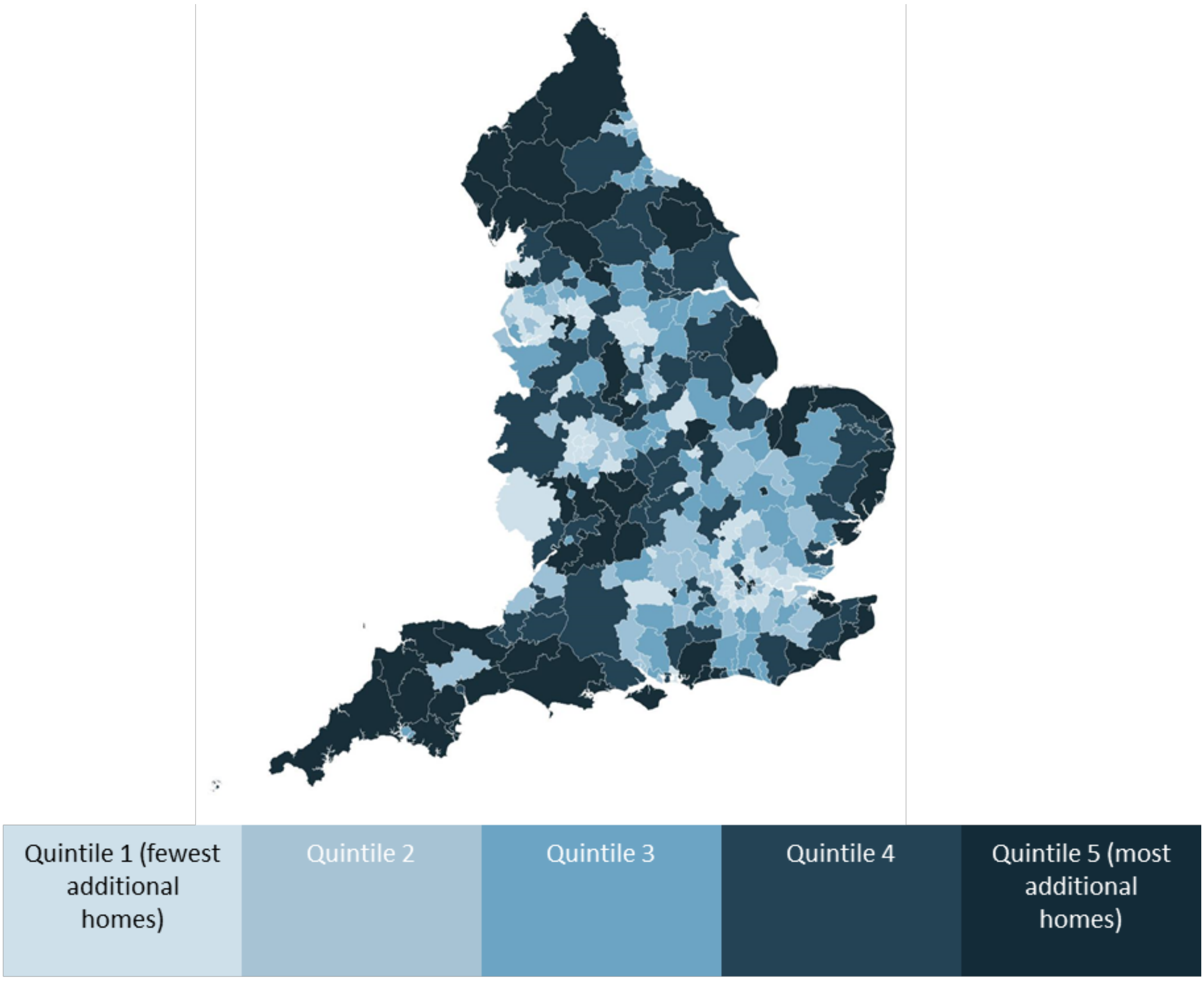
The benefits of PPT on the housing market are spread throughout the country, with London (80,000) and the South East (100,000) being the regions that see the largest absolute increase in homes made available under the high scenario. However, as we saw in the previous section there are relatively more poorly used homes in the North and West of the country. This means that – as shown in Figure 18 – PPT makes relatively more homes available in these areas, with the South West seeing an increase in homes equivalent to 3.3% of its total housing stock, compared to 2.1% in London. In reality, the much higher house prices in London might mean that the removal of Stamp Duty will have a bigger impact in the capital than elsewhere. The relative gains in different parts of the country should be seen alongside previous work for Fairer Share showing that people living outside of the wider South East of England were set to benefit the most from the PPT. Pre-existing regional inequality and the levelling-up agenda that is set to attempt to it should also be taken into account. That said, in terms of making homes available for young people, no region should lose out from the introduction of PPT.

Table 5: Total homes made available by PPT, by region (over 5 years)

	Scenario		
	Low	Mid	High
England	170,000	365,000	600,000
East	20,000	40,000	65,000
East Midlands	15,000	30,000	50,000
London	25,000	50,000	80,000
North East	10,000	20,000	30,000
North West	20,000	45,000	75,000
South East	25,000	60,000	95,000
South West	25,000	55,000	85,000
West Midlands	15,000	35,000	55,000
Yorkshire and The Humber	20,000	35,000	60,000

Source: WPI analysis

Figure 18: Map of properties made available to alleviating housing issues by the introduction of PPT (over 5 years)



Source: WPI analysis

Box 5: Methodology for quantifying the impact of PPT

The impact of the Proportional Property Tax on the housing market in England was estimated by applying a range of assumptions based on polling and an international literature review to the stock of inefficiently used homes presented above.

Annex: methodology

The analysis for this report consists of three overlapping stands:

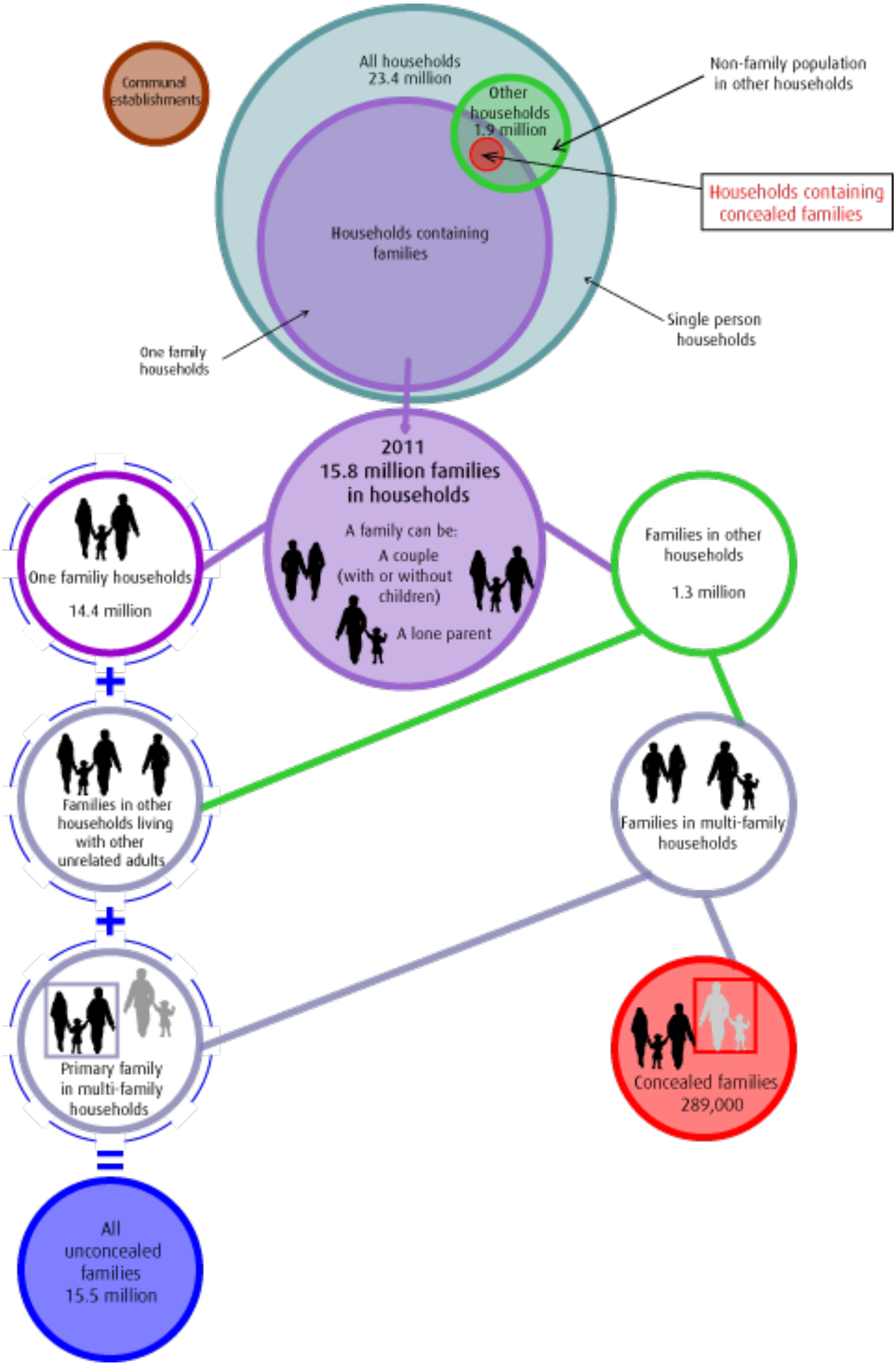
- Quantifying people in adverse housing situations.
- Quantifying the inefficient use of housing stock.
- Quantifying the impact of PPT.

Quantifying people in adverse housing situations

We used two categories of people living in adverse conditions:

- **Overcrowded households:** we used the “room standard” of overcrowding, which considers how many rooms a household ought to have for everyone to have their own bedroom (or share a bedroom if they are a couple or certain combinations of age and gender of siblings) as well as there being some communal space. This standard gives higher overcrowding rates than the “bedroom standard”, which does not consider communal space.
- **Concealed households:** we used the Office for National Statistics definition of a “concealed family” (as shown in Figure 19) and augmented it with the “concealed individual” - an adult (over 19 years old to exclude e.g. sixth form students) living with older family members they are related to.

Figure 19: Concealed families definition diagram



Source: 2011 Census (Office for National Statistics)[xxvii]

In order to get the precise age and geographical distribution (Parliamentary constituencies) of people in overcrowded and concealed households, the original data was taken from the 2011 Census. To account for demographic changes and trends in housing over the past decade, we apply the following adjustments:

- Overcrowding:
    - Applied the proportion of individuals living in overcrowded homes to up-to-date population figures.
    - Calculated the percentage-point increase in overcrowding at a regional level based on findings from the Family Resources Survey (FRS) and applied this to the Census overcrowding figures.
    - Distributed the increase seen in FRS between geographies and age bands in the region in proportion to the overcrowding figures from the Census.
- Concealed households:
    - Took the number of concealed families from the 2011 Census and estimate the age distribution of inhabitants based on the age if the Family Reference person and the number of children per household seen in the FRS.
    - Applied the percentage increase in concealed families between 2010/11 and 2019/20 seen in the FRS to the Census figures.
    - Estimated the number of concealed individuals at a regional level from the FRS and assigned them to constituencies based on the distribution of concealed families.

Quantifying people in adverse housing situations

We used the following sources for the number of homes that are being used inefficiently at the Local Authority level:

- **Second and vacant homes:** Administrative data from Councils is recorded in the Council Taxbase, detailing the number and Council Tax Band of second and vacant homes. We uprated the number of second homes based on the regional numbers reported by the English Housing Survey to account for underreporting of second homes. We estimated the number of bedrooms of second and vacant homes by looking at the distribution of bedrooms by property band and the Local Authority level and the bands of second and vacant homes.
- **Uninitiated planning permission:** The Local Government Association produces figures about properties that have planning permission where construction has yet to begin. We took the average figure from 2013-2017.
- **Overcrowding:** We used bedroom-standard overcrowding data from the 2011 census and updated it using the proportion change in overcrowding between 2010/11 and 2019/20 seen in the Family Resources Survey.

Quantifying the impact of PPT

We conducted an international literature review to create estimates of the impact of PPT on the four categories of underused homes. Synthesising these findings into an estimate of the impact of PPT over 5 years, we applied the percentage changes to the number of inefficiently used homes as presented in Table 6. In places we have had to make common-sense estimates that are not directly rooted in the literature. The high degree of uncertainty and lack of evidence about such a radical change in property taxation is reflected in the large range between our estimates. We estimated the distribution in different types of home in terms of bedroom by applying the pre-existing pattern of household size as presented by the Valuation Office Agency.

Table 6: Assumptions about the impact of PPT

	Low	Mid	High
Increase in churn	14%	27%	41%
Rationale	50% of mid	Hilber and Lyytikäinen (2017) - estimate of the effect of abolishing Stamp Duty on housing mobility	150% of mid
Proportion of transactions motivated by better use of space	11%	15%	19%
Rationale	Central scenario minus difference between central and high	FS polling: proportion of people who said they reason they were moving home is to better fit the size of their family	English housing survey, Housing Ownership (2019/20), Annex 3.4 - main reason for moving house for a larger/smaller home
Proportion of uninitiated planning permissions constructed	10%	20%	30%
Rationale	Common-sense rage based on literature and expert opinion		
Reduction in use of second homes	10%	20%	30%
Rationale	Common-sense rage based on literature and expert opinion		
Reduction in vacant homes	17%	26%	34%
Rationale	IRRV Insight analysis of impact of Council Tax on vacant homes	150% of low	200% of low

Endnotes

i Local authority financial sustainability and the section 114 regime (Housing, Communities and Local Government Committee, 2021) https://publications.parliament.uk/pa/cm5802/cmselect/cmcomloc/33/3306.htm#_idTextAnchor010
ii The Pinch (Willets, 2011)
iii Assetocracy: the inversion of the welfare state (Fraser Nelson – The Spectator, 11/09/21) https://www.spectator.co.uk/article/levelling-up-the-inversion-of-the-welfare-state
iv Young adults living with their parents, ONS Young adults living with their parents - Office for National Statistics (ons.gov.uk)
v First-time buyer housing affordability in England and Wales (ONS, 2018) https://www.ons.gov.uk/peoplepopulationandcommunity/housing/articles/firsttimebuyerhousingaffordabilityinenglandandwales/2017
vi English Housing Survey headline report, 2018-19 https://www.gov.uk/government/statistics/english-housing-survey-2018-to-2019-headline-report
vii English Housing Survey Housing Costs and Affordability Report, 2018-19 – AT3..3
viii MHCLG homelessness live tables, 2019/20
ix ASHE, 2019
x An intergenerational audit for the UK (Resolution Foundation, 2020) Figure 27 https://www.resolutionfoundation.org/app/uploads/2020/10/Intergenerational-audit-2020.pdf
xi Living longer: changes in housing tenure over time (ONS, 2020) https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/articles/livinglonger/changesinhousingtenureovertime
xii Reynolds & Robinson, 2005 via Brick by Brick (Mind, 2017) https://www.mind.org.uk/media-a/4432/20171115-brick-by-brick-final-low-res-pdf-plus-links.pdf
xiii Generation Pause, (Shelter, 2017) https://england.shelter.org.uk/media/press_release/generation_pause_60_of_under_45s_left_behind_by_housing_crisis
xiv Moving Matter (Resolution Foundation, 2019) https://www.resolutionfoundation.org/app/uploads/2019/06/Moving-Matters.pdf
xv This based on the "room standard" from the 2011 Census
xvi Spare rooms in under-occupied homes beyond the first spare bedroom
xvii See a summary of the arguments against the planning system from a centre-right perspective in: Rethinking the Planning System for the 21st Century (Policy Exchange) https://policyexchange.org.uk/wp-content/uploads/Rethinking-the-Planning-System-for-the-21st-Century.pdf
xviii The extraordinarily rigid planning system is the main reason homes in England are unaffordable, (Hilber and Vermeulen, 2016) https://blogs.lse.ac.uk/politicsandpolicy/three-reasons-homes-in-england-are-unaffordable/
xix WPI Analysis of MHCLG live tables on dwelling stock https://www.gov.uk/government/statistical-data-sets/live-tables-on-dwelling-stock-including-vacants
xx WPI analysis of House building, UK: permanent dwellings started and completed (ONS, 2021) https://www.ons.gov.uk/peoplepopulationandcommunity/housing/datasets/ukhousebuildingpermanentdwellingsstartedandcompleted
xxi Building for our future: A vision for social housing (Shelter) https://england.shelter.org.uk/support_us/campaigns/a_vision_for_social_housing
xxii Help to Buy (equity loan scheme): data to 31 March 2021 https://www.gov.uk/government/statistics/help-to-buy-equity-loan-scheme-data-to-31-march-2021
xxiii English Housing Survey 2018/19 Housing Affordability, Table AT3.1
xxiv A number of proposals for reform in the private rented sector can be found in the National Renters Manifesto (Generation Rent et al, 2019) https://d3n8a8pro7vhmx.cloudfront.net/npto/pages/7224/attachments/original/1572865626/MANIFESTONational_Renters_Manifesto_revised.pdf?1572865626
xxv A strong case for this is made in the Mirrles Review by the IFS https://ifs.org.uk/uploads/mirrleesreview/design/ch16.pdf
xxvi WPI Economics analysis of Residential property sales for administrative geographies: HPSSA dataset 6 (ONS, 2021)
xxvii https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/articles/2011censusanalysis/2014-02-06

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