

- Moving from household density (which leads to small homes) to bedroom density (which would encourage more larger new homes) as a planning guideline or target
- Ending Capital Gains **Tax** exemption for principal residences, as well as for secondary residences. Alternatively treat capital value accrual of any residence as taxable income (rather like Schedule A income tax).
- Withdrawal of some universal benefits for households in high-value homes.
- Getting tough with lenders. Homeowners disproportionately benefit from the ‘moral hazard’ of bailing out the banks.

**Conclusion.** This is not an attempt to devalue home ownership. Despite being priced out of the housing market in so many ways, young people still overwhelmingly aspire to own their own homes. Yet it is estimated that on current trends barely a half of those aged 20 now will ever buy one. Inter-generational unfairness in this market is systemic and combines with wealth inequality to create disillusion among young people. Until it is corrected by some of the measures listed above, it is like a time-bomb ticking in our society.

For further information about housing and land value tax see the report [“Housing and Land Value Taxation”](#).

Liberal Democrat Action for Land Taxation  
and Economic Reform

Author Dr Tony Vickers

Contact us at [info@libdemsalter.org.uk](mailto:info@libdemsalter.org.uk)

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## The Hoarding of Housing



In all the coverage of the “Housing Crisis”, hardly anything is said about how our existing housing stock is being used.

Yet even the most optimistic forecasts of potential rates of new build will only add one or two percent per year to the total stock – barely keeping up with the rate of new household formation - whereas policies that help make more effective use of the other 98% rarely get a mention.

The crisis is **not** about Britain having enough housing. The problem is one of allocation between older and younger generations, and between the rich and the poor. Under-occupation of houses is encouraged by the tax system, resulting in 25 million surplus bedrooms. The housing crisis is in fact a symptom of a much wider social malaise: growing wealth inequality, and the growing inter-generational divide in which “the money borrowed



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by young families” to enable them to buy the smallest new homes in Europe ends up “in the bank accounts of older households”<sup>1</sup>.

### **The Mismatch between housing need and allocation.**

The ‘family home’ is increasingly not occupied by anyone actually raising a family. Furthermore, by the time a family *with children* can afford to buy a home with enough bedrooms for the kids to sleep in, lenders except ‘the bank of mum and dad’ will soon turn them down for a mortgage. Poorer first time buyers without wealthy parental support are now aged 37 on average: a typical 25-year loan will leave little time left, after its repayment, to save for that pension before retirement comes!

More than a third of total English housing stock is under-occupied, i.e. there is more than one spare bedroom. The figure was 1/5 in 1971 – but most of the rise is since 2003. Whereas the ‘bedroom tax’ on non-pensioner occupiers of rented housing is based on only the exact number of bedrooms a household ‘needs’, owner-occupiers – including 80%+ of over-55s but well under half those families with dependent children – have no incentive whatsoever to down-size. Probably 90% of spare bedrooms are in pensioners’ owner-occupied properties. Only in the over-65 age-group has owner-occupation increased since 1991. Meanwhile households living in the private rented sector are set to double between 2007 and 2020.

### **Growing Wealth Inequality.**

Today’s pensioners have benefited from right-to-buy in the 1980s, and we have seen a huge growth in the proportion of household wealth held as housing property coupled with a decline in new build. Since 1980 (when it roughly equalled GDP), total home-owner household equity has almost doubled in real terms. In 2007, it had reached 185% of GDP. As a proportion of

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<sup>1</sup> Spencer Dale, Bank of England Chief Economist

net personal wealth, dwellings have increased from 18% in 1960 to about 60%.

While housing wealth grew in the past 20 years, it was exceeded by the household debt accumulated over the same period – mostly secured against owner-occupied homes and fuelling house price rises. More than  $\frac{3}{4}$  of household debt in 2009 was secured on dwellings. Average household debt – and the proportion secured on dwellings – is far higher in Britain than any other major economy. Almost all the increase since 2002 has been mortgage related.

There are many reasons why older people ‘hoard’ their over-sized homes. Yet the British do it more than others, even the Americans, where likelihood of an individual moving home *increases* over the age of 60 (here it *decreases*). Memories, grandchildren’s visits, staying near friends, keeping a garden – all militate against down-sizing as one gets older. But the facts show how unsustainable and damaging to the national economy and society this is likely to be. Properties occupied by frail elderly are generally less well maintained and the elderly home-owners themselves become dependent and a greater burden on health and social services than if they down-size.

### **Land Value Taxation is Part of the Answer.**

**LVT** gives a strong financial incentive for all households to minimise under-occupation and cease to treat their home as a principal store of wealth.

Other policies would help too, in the short term and without LVT. Many also relate to tax:-

- Ending single persons’ council **tax** discount
- Exempting down-sizing home-buyers from Stamp Duty Land **Tax**