

INTERIM REPORT OF THEHOME OWNERSHIP AND CONSTRUCTION INDUSTRY POLICY GROUP

1. The Group was set up on June 9th 1975 and has so far met three times, one of which was to discuss this report. The Group has produced this document in great haste in order to meet a request for its interim thoughts before the Summer Recess. We wish to emphasize that this document is produced solely in response to that request. It represents initial reactions and not a detailed, considered statement. When the Group resumes its work in the Autumn, it will begin a more intensive study of the problems within its terms of reference.
2. Because of the extreme shortness of time the Group felt that it should concentrate on reviewing the Party's policy commitments at the October 1974 General Election to see what could still be recommended in the event of a snap election before November 1975.
3. The Group remains convinced that, on both social and economic grounds, the extension of home ownership should be the basis of Conservative housing policy. The arguments for and against this point of view are set out in Appendix A to this Paper.
4. The Group believes that there is considerable scope for increasing the percentage of home ownership in Britain to the levels of some other countries. While we should not wish to quantify at this stage any exact target rate of increase, in 1951 the percentage of home ownership in Britain was almost 27 per cent but by the end of 1972 this had increased to 52 per cent. It is not easy to compare the performance of other countries because of the difficulty of obtaining accurate and up to date statistics but in 1968 Japan had a percentage of over 80 per cent; in New Zealand in 1967 the proportion was almost 70 per cent and in the same year in Canada it was over 65 per cent.

5. Extension of Home Ownership

(i) Because of the current economic situation, in the event of a snap election this Autumn, the Group cannot recommend that we repeat our October 1974 Election pledge of 9½ per cent mortgages for all (including local authority mortgages). We feel that the increase in incomes relative to house prices in the recent past means that, although many families will still find the initial repayments a great struggle, indiscriminate government help of this kind ~~at~~ at the present time be justified. There are however a number of people who have obtained local authority mortgages and are now paying rates of interest as high as 17 per cent. Many of these people are less well off than those who borrow money from building societies. The government loan to the building societies for technical reasons could not be used to keep their rate of interest down to 11 per cent. It is difficult to give an exact figure but since not even half of local authority mortgage ratios are above 11 per cent at present, a cost in the region of £12 - £15 million per year would be unlikely to be exceeded. (See Appendix C).

(ii) The Home Savings Grant Scheme. The Group continues to believe that the scheme could in principle be of great value. The deposit is often a major stumbling block to house purchase and the scheme gives an incentive to save and therefore has a disinflationary effect. It would come into full operation only after two years and therefore there would be no initial cost to public funds. Nonetheless we feel that in the present situation it may be felt that we could not be sure that the economic position had improved enough even after two years to adopt this policy for the present. We therefore propose that it should be kept under review and included as Conservative policy sometime in the future.

(iii) Nevertheless if home ownership is to be increased further help from Government funds does seem called for: the present proportion of average net disposable income needed to sustain an average new mortgage (about 29 per cent) acts as a disincentive to many couples who would like to own their homes. The size of the average deposit needed by a first time buyer is over £2500 which is above average net disposable income for a whole year. The Group prefers measures which will bring into home ownership persons who would otherwise live with their parents and then go into a council house. We would not wish at this time to divert resources to people ready and willing to make their own arrangements. The Group therefore suggests:-

a) There is scope for introducing a scheme with the support of the building societies by which a borrower paid a fixed proportion of his income by way of mortgage every year. Details of this scheme, as researched by the Housing Research Foundation, are shown in Appendix B. Some limited government guarantee would be necessary.

b) Limited experiments along the lines of the American Section 235 scheme could be tried as an alternative to council housing. This scheme is targeted particularly at those on just below average earnings. At the moment only a small proportion of this group are moving into home ownership. They do require a subsidy (see Appendix B) but since they do not require the participation of local government in land buying or construction, the cost would certainly be less than for building new council houses.

c) The Shared Purchase Scheme involving a government backed Finance for Housing organisation will be investigated in the Autumn.

d) Equity participation by institutions in home ownership offers further possibilities but the Group is not yet in a position to make recommendations about this.

e) The detailed proposals in the October Manifesto about the sale of council houses are strongly endorsed by the Group.

f) The present Government's policy of reducing the allocation for local authority mortgages in order to promote municipalization is a ludicrous misuse of resources. Local authority mortgages have a very useful role to play in stimulating the lower end of the market.

g) Tied Cottages. We feel that people in tied cottages paying off mortgages for homes for their retirement should receive tax relief on the mortgage interest subject to the limit of £25,000 prevailing on other mortgages.

(iv) The Supply of Mortgage Finance

a) We endorse the general principle outlined in the October Manifesto to use the composite rate of tax as an instrument of stabilization where necessary. Thus if economic conditions improved sufficiently for enough money to be available, one could alter the composite tax rate and so alter the mortgage rate to 9½ per cent or whatever rate was felt, at that time, to be appropriate. This could not be extended to local authority mortgages without a direct subsidy since the existing tax mechanism does not operate in that sector.

b) The Group is doubtful if such will be achieved by a full scale 12 months investigation into the role and structure of the building societies as proposed last October. We have, however, no objection to repeating that proposal if the Party feels it is expedient to do so. It is certainly true that an inquiry might dispel some of the cruder myths about "wasteful branch offices" and so on.

c) More impetus should be put behind the growing tendency of building societies to make stage payments to housing developers. Since this money has to come out of the special advances category, it is advisable that the limit for Special Advances be reviewed every year. The latest increase from £13000 to £20000 is the first increase since 1971 and by no means fully reflects the increase in house prices since then.

d) The Group will endorse at this stage widening the Joint Advisory Committee to include house builders, as proposed in the last manifesto but sees this as part of the wider issue of industrial consultation on which it will make detailed recommendations in the Autumn.

The Group believes it would be helpful to list - for the purposes of public debate as well as policy formation - the main reasons for and against the extension of home ownership.

Arguments Against Home Ownership

1. The private sector does not provide adequately for the disabled, the elderly and the short stay and single persons. (This argues for less pressure on the council sector from those who want to own their homes, for encouragement to the voluntary housing movement and to the private landlord).
2. Underoccupation in the private sector is higher than in the public sector. (This is often caused by fears of the Rent Tribunal and of the possibility of future extension of security of tenure to shared accommodation. It argues for greater building of one and two bedroomed houses to take account of the demographic shift towards smaller families).
3. Tax Relief increases with the size of loan advanced and with the income of the borrower. (Encouraging families to "trade up" releases cheaper houses for families on more modest incomes).

Arguments For Home Ownership

1. It is what most families want.
2. While the present council rent structure survives it is less costly to help through tax relief on mortgage interest a family to buy a home than to subsidise them permanently in a new council house.
3. It gives families a stake in the future of the country and helps make them more independent of the State. It also brings about the spread of ownership of wealth and capital amongst ordinary families and people.
4. It leads to a better repair and maintenance of our housing stock because people take pride in what they own and stay in occupation during such repairs and maintenance.
5. It enables local councils to get on more quickly with the housing tasks they alone can carry out, such as slum clearance and the provision of more homes for special groups like the elderly and the disabled. For if families who would rather buy are forced to join the queue for a council house for lack of alternative these special groups are often pushed to the back.
6. It breaks the growing monopoly of council housing in many parts of the country and so creates more choice and it lessens the danger of political corruption at council level. For when local councils have a monopoly or near monopoly of housing in their areas there is clearly a real risk of corruption.
7. It is beneficial to widows and families that, on their head of household's death, they have a home of their

NEW WAYS OF HELPING LOWER INCOME FAMILIES TO BUY

8. Among the alternative schemes for housing finance discussed three stand out as offering substantial advantages when compared with both conventional mortgages and local authority housing.

9. For house purchase the best, though there might be administrative problems, is a loan for which the household makes a net payment of a fixed proportion of its income—the proportion being determined by the ratio of the advance to the household's income. Under this arrangement it would be possible for all but the lowest 15% of households in the household income distribution to buy a house by spending no more than 15% of head of household earnings over 30 years—no more than new borrowers are currently spending. Indeed, if payment were 17½% of income the range of potential house purchasers would include 94 per cent of households, even without special subsidy. This scheme works well at each of the rates of inflation considered, and while it implies a rather larger cost in tax relief than the conventional mortgage, it is still very much less expensive than local authority house. Its advantages derive from the fact that by accepting a constant real burden of mortgage payments the household can greatly reduce the initial fraction of income spent on a mortgage and also borrow a much greater multiple of its income—e.g. for a net payment of 15% of income the household could borrow up to 4.5 times its income.

American Section 235 Plan

10. The two other schemes offer new and advantageous methods of assisting below average income families. One, the American Section 235 proposal, previously discussed by HRF, is a conventional mortgage loan with the additional provision of a subsidy to the borrower to cover the difference between the net payment on the mortgage and a maximum of 20% of income. This also works out cheaper than local authority housing.

Equity Participation

11. The other scheme is essentially a variant on co-ownership and is based on the lending institution providing a loan which is 25% standard mortgage and 75% equity participation in the value of the house on which a low interest rate is charged. It provides a way in which very low income households can take the first step toward house purchase at a low cost to the government. It has disadvantages but offers the most substantial savings in government subsidies when compared with local authority housing. This is true for each of the inflation rates examined.

Strong Case for Adopting These Plans

12. Each of these three schemes mobilises the willingness of households to spend more on house purchase than rental. The administrative difficulties can be overcome.

13. There is therefore a strong case for adopting each of these schemes in order to improve on existing arrangements for housing finance and to widen the range of options available to borrowers, lenders, and the government. Careful planning would ensure that higher demand did not force up house prices. No one would be compelled to buy. More would have a choice between buying and renting.

APPENDIX C

This is a very rough costing of the proposals contained in the Report.

1. 9 $\frac{1}{2}$ per cent mortgages Approximately £300 million per year.
2. Home Savings Grant Scheme Very roughly £150 million per year will be the cost once the scheme is fully under way.
3. Guaranteed Percentage of Income Mortgage Scheme and the Section 235 Scheme
it is impossible to give any estimate of the cost of these schemes until their detailed implementation has been worked out. However with subsidies to new council houses running at well over £1000 per year in the first year and at very high amounts thereafter, there is no doubt that these schemes could save the Exchequer substantial sums of money. This would only be the case however if Section 235 scheme houses were built as an alternative to and not in addition to a new council house.
4. A reduction of all local authority mortgage rates to 11%.
This would probably cost in the region of £12 - 15 million per year.
5. Tax Relief on Mortgage Interest for Tied Cottages
The extension of tax relief on mortgage interest to those in tied cottages buying a home for their retirement would cost a negligible amount.