

HOME IMPROVEMENTS

Building an integrated strategy for UK housing

HELPING REAL LIFE HAPPEN

A report by Yorkshire Building Society



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Foreword

The housing market debate has been ongoing for decades, with no substantial progress made. There is largely a consensus of agreement on the key issues: providing more properties through building and repurposing; ensuring the right mix of homes to suit the evolving needs of an ageing population; supporting more first-time buyers onto the property ladder, and creating a framework for improving the energy efficiency of existing properties.

This important subject has not yet been given the priority it needs and deserves by successive governments. We welcome the current Government's focus on the housing market, and its policy to build 1.5 million homes and reform the planning system. However, we must avoid past pitfalls. It is important to ensure an inclusive and well-considered approach which drives action and reaches beyond simply creating new homes to deliver diverse solutions which truly meet the needs of an evolving population.

In October 2023, Yorkshire Building Society published its *Home Truths Report*¹. Amongst its most powerful findings was that almost four-fifths (78%) of first-time buyers and seven-in-10 people remortgaging think homeownership is becoming an elite privilege. As a mutual established to make homeownership possible for ordinary people, our purpose remains centred on helping customers find a place to call home. Our research confirms that change is needed to enable this.

For that reason, we have built on *Home Truths* with a range of policy recommendations, outlining the opportunities for a collective industry effort to help solve the housing

market conundrum. These span across key areas from new solutions to help first-time buyers with the challenges posed by record house prices and the high cost of living, to supporting landlords to provide good quality housing by reviewing recent changes to taxation and regulation. A more joined-up approach is also needed to provide homeowners with the right information and incentives to help them make genuinely environmentally friendly changes to their properties which will save both their money and the planet.

As a leading building society, we continue to innovate to support our goal of helping real people with their real lives, including our £5k Deposit Mortgage which enables people to obtain their first home with a more achievable deposit amount. We are actively listening to our members, customers and the market. This document is intended to amplify their voices and initiate action because we cannot address their feedback alone. The housing sector, trade bodies, other mortgage providers, policy makers and politicians must come together to address the barriers within the UK's housing market.

I hope this document will trigger debate and action that will take us forward at a faster and more productive pace than anything that has been achieved so far. ■



Susan Allen

Chief Executive Officer,
Yorkshire Building Society



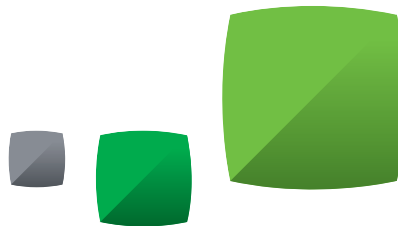
1. *Home Truths Report: Is home ownership becoming an elite privilege?* | YBS

Introduction

The UK housing market is at a crossroads. For many, the dream of homeownership feels out of reach and seems to recede further with every passing day. Renters are also facing pressures as rents increase and landlords are being squeezed by their own rising borrowing costs and growing regulatory requirements. Policies to address the challenges have been sporadic, poorly targeted, subject to sudden and unexpected change, and have frequently been blamed for exacerbating issues. It is time for joined-up thinking and bold action.

Analysis and policy discussion around the UK housing market typically takes on two perspectives. One is an entirely top-down view, which looks at aggregate data such as house-building figures or average prices. The other is often too narrow and granular, looking to solve a problem in one particular market segment, and usually a demand-side initiative.

This report provides targeted recommendations for two broader market segments – those looking to buy their first home and the rental market. To avert the potential for a housing crisis, we must address the challenges within the housing market with a coordinated strategy whereby government, lenders, landlords and homeowners all play a key role in the solutions.

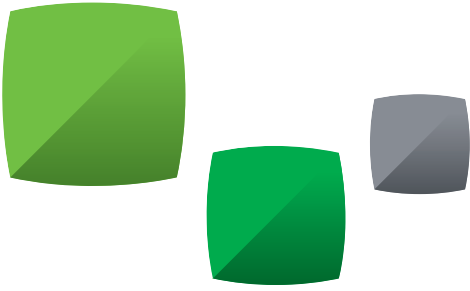


Data from the Office for National Statistics shows the average house price has risen from below four times average earnings in 1998 to more than six times average earnings in Wales and eight times average earnings in England².

The difficulties faced by first-time buyers scarcely need to be rehearsed. Data from the Office for National Statistics shows the average house price has risen from below four times average earnings in 1998 to more than six times average earnings in Wales and eight times average earnings in England². First-time buyers face a huge challenge in accruing a sufficient deposit and finding a property that is both suitable and affordable.

These price rises, combined with higher interest rates, are the biggest difficulty for UK homeowners, but they are only part of a wider array of housing challenges. >

2. Housing affordability in England and Wales - Office for National Statistics (ons.gov.uk)



➤ Housing in the UK is undergoing a once-in-a-generation transformation driven by significant changes in lifestyles and demographics. The key forces at work are the rise in home or hybrid working, an ageing population – many of whom would like to downsize – and the growth in multi-generational households, due either to children remaining at home longer or older relatives sharing homes with their own children.

In early 2022, research³ by the Office for National Statistics found that 84% of workers who had been required to work from home during the pandemic planned to operate at least partly from home in the future. Despite lockdowns having been lifted, 14% of workers in that survey reported working entirely at home over the previous seven days, while 24% reported having been based at least partly from home.

Our own survey of homeowners and first-time buyers, published in the Yorkshire Building Society *Home Truths Report*⁴, identified a clear trend for first-time buyers to seek larger homes to enable home working. Meanwhile, 45% of those planning to remortgage were considering downsizing, perhaps to help them afford their monthly mortgage payments.

With so many factors at play, any solution to the UK's housing problems must recognise that the market is an ecosystem linked to lifestyle and population change. It is essential that planning and building is attuned to these changes and that we are creating and financing affordable properties that match the needs of an evolving population. In short, we need to build more houses.

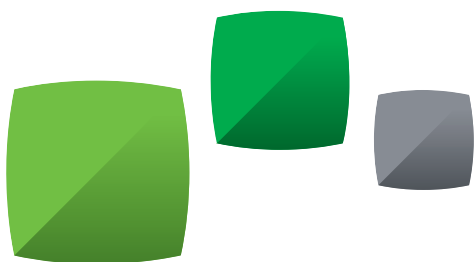
Entwined with all these factors are the critical environmental considerations. Housing generates 21% of the UK's carbon emissions⁵ and reducing that figure will be essential to meet the Government's Net Zero target. Our research found that younger buyers are willing – if not eager – to buy properties with strong environmental credentials. Ninety per cent of first-time buyers said they would consider a green mortgage – a loan offering lower rates to buy an energy-efficient property, funded from sustainable sources or designed to enable environmentally friendly property upgrades. Almost three-quarters (73%) said lowering energy costs would be a major incentive for such a mortgage. ➤



3. Homeworking in the UK – regional patterns - Office for National Statistics (ons.gov.uk)

4. *Home Truths Report: Is home ownership becoming an elite privilege?* | YBS

5. Retrofitting the UK's housing stock to reach net zero (energysavingtrust.org.uk)



› With these multiple challenges and shifting demands, an integrated policy solution for the UK's housing inadequacies is now essential. That should include the following key elements:

- **Fit-for-purpose housing strategy**

A long-term blueprint that transcends party politics, aimed at providing the mix of homes needed by future generations – including older borrowers, multi-generational families, those with hybrid working arrangements, upsizers and downsizers.

- **Holistic planning reform**

Ensure that proposed reforms to national planning regulations via the Government's Planning and Infrastructure Bill, are holistic and forward-thinking in nature and consider aspects like the role of brownfield and greyfield development sites as well as new build homes in meeting the housing shortfall. They should also consider the evolving make-up and needs of today's society, including a growing older population and increasing demand for inter-generational living space.

- **Independent oversight of housebuilding**

The creation of an independent body to monitor house-building targets and ensure the planning process is fit for purpose. This body, which we propose should be modelled on the likes of



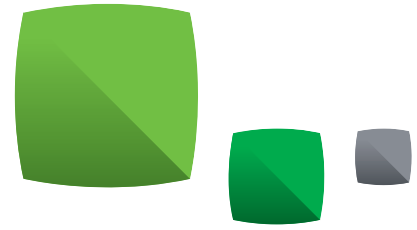
the Climate Change Committee, would ensure housebuilding does not damage much-valued greenbelt excessively, or introduce increased risk from environmental factors such as flooding.

- **Empowered housing oversight**

Appointment of a Housing Tsar, tasked with pushing the nation's housing needs to the top of the political agenda.

In the following sections we examine the policies and approaches that could alleviate the situation affecting the first-time buyer and rental markets. It is important to bear in mind, however, that these proposals must be considered as part of a wider strategy and vision. ■

Help for first-time buyers



First-time buyers are being forced to wait longer than ever to get on the housing ladder, need larger deposits and often require financial support from family members. The average first-time buyer is now 34 years old, and the average deposit is £53,414⁶.

The easing in house price inflation during 2023 has done little to alleviate this affordability crisis because the 2023 drop came after an extraordinary rise in house prices in the wake of the COVID-19 pandemic, and the average value is still £40,000 higher than in 2020. Data from the Office for National Statistics shows house prices starting to creep back up again in 2024, rising by 2.7% in the 12 months to June⁷.

Furthermore, interest rates, though starting to reduce in 2024, will remain at levels well above the historically low rates typical of the preceding decade. With house prices increasing, the position of first-time buyers will likely continue to worsen, with the gap between what they earn and the rising price tags on first homes likely to widen further with each passing year.

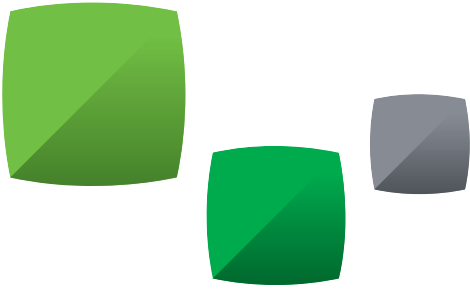
Changing lifestyle and homeownership patterns among first-time buyers are adding to the wider problems referred to in the first section. Forced to wait until later in life before buying a property, the current generation of would-be homeowners is often looking for larger properties suitable for a family – adding further to the demand for mid-sized properties. Meanwhile, their mortgages will extend later into their lives and even into retirement.

This last effect also illustrates how the difficulties faced by first-time buyers must be seen in the context of wider economic and social challenges. The UK is commonly regarded as facing a significant future pensions crisis. >



6. Uswitch, May 2024: www.uswitch.com/mortgages/first-time-buyer-statistics

7. UK House Price Index for June 2024 - GOV.UK (www.gov.uk)



Our proposals for positive change

Ongoing research by the Institute for Fiscal Studies⁸ indicates that many people of working age are saving only small amounts towards their pension. One reason for this may be that they are having to save more towards mortgage deposits or to service their existing mortgages. They may now be facing the prospect of still paying a mortgage during retirement.

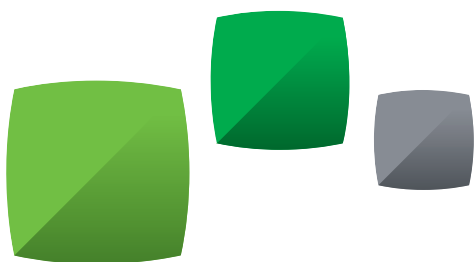
A National Housing Plan must include new initiatives to help first-time buyers and encourage people back into the housing market at all levels, offering properties suitable for the changing needs of today's society – not just those starting out but also the increasing older population who are among those likely to seek quality downsizing options.

Action to address these issues will need to focus on the two essential problems faced by first-time buyers: building a deposit and mortgage payment affordability. >

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8. Challenges for the UK pension system: the case for a pensions review | Institute for Fiscal Studies (ifs.org.uk)



A new government scheme to help first-time buyers

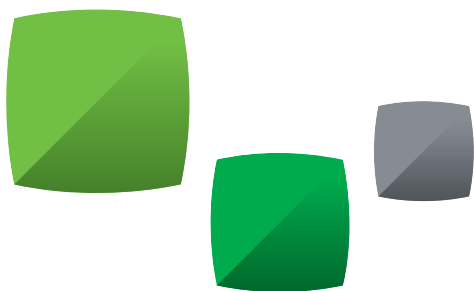
The now-discontinued Help to Buy scheme was centred around the Government providing an equity loan of up to 20% of the value of a new-build property (40% in London). The scheme, scrapped in 2022, helped many first-time buyers to own a home, but was widely recognised as having several flaws.

Firstly, it was poorly targeted and therefore in many cases didn't reach the less affluent buyers it was created to help. This exacerbated the demand for larger homes and therefore encouraged housebuilders to build bigger houses, rather than the smaller properties needed by first-time buyers with modest means and most in need of help. >



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› These factors, and the basic premise of providing extra government-backed lending for house buying, meant Help to Buy itself may have contributed further to house price inflation and changed the shape of housing home builders chose to construct.

Nevertheless, the scheme also facilitated high loan-to-value (LTV), new-build lending and its demise has left mortgage lenders to shoulder that burden. As a result, many lenders ceased lending over 90% LTV on new builds, due to the risk it posed. If government support is not reinstated, this market may become increasingly underserved.

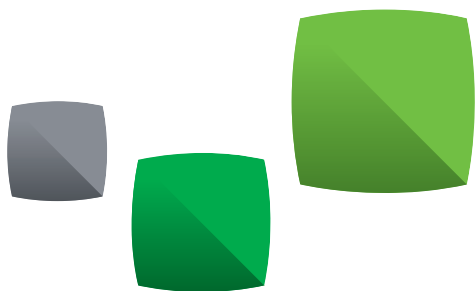
Undoubtedly, the original Help to Buy programme was taken up by plenty of first-time buyers, getting them onto the housing ladder earlier, and its end has left an undeniable gap for much-needed government support. A replacement is needed which should aim to deliver support while avoiding the flaws. Key elements should include:

- **Availability for all property types and not just new builds**
Widening the pool of properties suitable for a new Help to Buy scheme would mitigate the potential to fuel inflation in a particular segment of the market, namely new builds.

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It could also assist in solving other problems around housing provision, notably the need to regenerate existing housing stock. The previous generation of first-time buyers commonly expected to buy a property in need of renovation and in this regard first-time buyers played a role in the renewal of properties.

- **Support for energy efficiency retrofitting**
A new Help to Buy scheme could offer extra assistance to first-time buyers committed to retrofitting properties, raising their Energy Performance Certificate (EPC) rating and contributing to the Net Zero emissions target. ›



- **Targeting first-time buyers most in need**

Ensuring support goes to those most in need is a particularly challenging task. The previous scheme placed a cap on the value of property someone could buy, but this is only partially effective in targeting for need. Other measures would require careful consideration but could, for example, include an income cap on those eligible for support.

New and expanded rent-to-buy schemes and review of affordability tests

A number of rent-to-buy schemes run through housing associations and commercial property groups are operating in the UK. Initiatives are needed to expand rent-to-buy options, through:

- **Incentivising rent-to-buy**

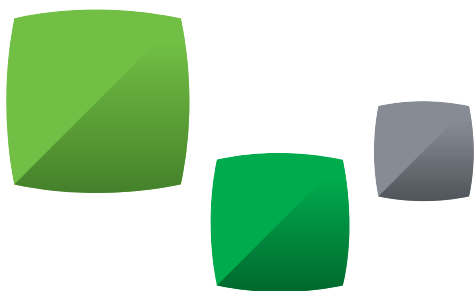
Government incentives to encourage private businesses, investors and property groups to set up rent-to-buy schemes. Such incentives could also help drive development towards the types of property required by the first-time buyers most in need. These need to be simple and consistent to encourage further lender support.

Innovation from lenders in partnership with government

The regulation around affordability and stress testing requirements of lenders should be reviewed. Many would-be first-time buyers can demonstrate their ability to meet rental payments, which – although they don't have to account for property upkeep expenses – in many cases would be higher than their expected mortgage repayments.

Lenders, however, are required to test such buyers' affordability by assessing their ability to meet payments on a stressed basis should rates rise further in the future. During the decade-and-a-half when the Bank of England base rate was close to zero, this was an appropriate test. Lender affordability models have proven to be good predictors of the maximum debt prospective borrowers can cope with, and have helped protect against a further financial crisis by preventing people from overstretching themselves. >





➤ However, the current economic environment is driving affordability decisions which are not reflective of actual expected rates in the future, and therefore first-time buyers are currently being stress tested at unrealistic levels, when the longer-term outlook is for rates to be around half that.

● Review stress-testing rules

While stress tests are essential to ensuring mortgage providers continue to lend responsibly going forwards, they should be reviewed to ensure they remain relevant and prudent. A more sophisticated and sustainable method could be applied to setting them.

Further stamp duty incentives to encourage people back into the housing market at all levels.

Existing stamp duty waivers are already generous and first-time buyers pay no Stamp Duty Land Tax (SDLT) on properties valued at £425,000 or below and then 5% between £425,001 and £625,000. Borrowers are eligible if they (and the person they are buying with, if applicable) are first-time buyers. But the impact of SDLT is felt elsewhere in the property market too. Older homeowners are often living in properties that are larger than their needs or desires. Downsizing could play a useful role in loosening the top end of the housing market, with knock-on effects along the housing chain. It could also release more properties for multiple occupancy.

But despite the often-touted potential for downsizing to help the wider market, there are currently no incentives for homeowners to do so. Policy could address this in this way:

● Stamp duty incentives for downsizers

Homeowners with larger properties who are looking to downsize may be put off doing so by the stamp duty to be paid on buying a new property. A full or partial waiver of stamp duty for downsizing would remove this disincentive. The likely effects of this would need to be analysed to fully understand the financial implications and calibrate the offer appropriately. However, an example of a potential measure would be to introduce a stamp duty waiver for those buying a residential property worth no more than 75% of the value of the property they are selling.

A secondary benefit of this would be to assist those experiencing difficulty in maintaining their current mortgage payments. For owners in distress, downsizing is a potential solution but one that is hampered by the costs of moving, a significant element of which is SDLT. ■



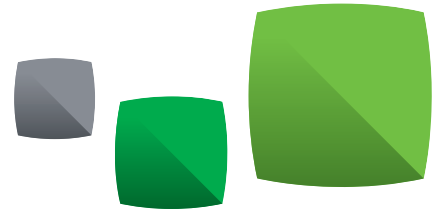
A level playing field for responsible landlords

Private landlords typically get little sympathy in any discussions about the state of the housing market, but any solution to the UK housing crisis must recognise the valuable role they play in housing provision. Government policy in relation to private landlords and the buy-to-let market has been a patchwork of measures often targeted at a single issue, rather than being designed in the round. The result has been to burden landlords with higher costs and more administration, which has neither been helpful to the UK's housing infrastructure nor entirely beneficial to private tenants.

Rising rents are frequently cited as evidence that private landlords are profiteering from the ongoing housing crisis, but this is far from clear. Private rents in the UK rose by 6.2% in the year to December 2023⁹. This may appear worrying when compared to annual CPI inflation which stood at 4%¹⁰. However, CPI excludes the cost of mortgages and therefore doesn't reflect the rising costs faced by buy-to-let landlords.

Furthermore, rises in rents typically lag wider inflation and increasing landlord costs. Yorkshire Building Society's *Home Truths Report*¹¹, based on a survey of 500 private landlords, found that only 43% had raised rents at all during the previous 12 months, despite the fact the base rate had risen by three percentage points over that period and inflation had topped out at 11.1% in November 2022, following the now-infamous mini budget¹².

When it comes to rent rises, it appears that many landlords are playing catchup with their own rising costs rather than trying to extract excess profits. >



9. Index of Private Housing Rental Prices, UK - Office for National Statistics (ons.gov.uk)

10. Consumer price inflation, UK - Office for National Statistics

11. *Home Truths Report: Is home ownership becoming an elite privilege?* | YBS

12. Consumer price inflation, UK - Office for National Statistics

➤ Meanwhile, private landlords largely welcomed recent reforms aimed at ensuring tenant health and safety, such as five-yearly electrical testing, the provision of smoke alarms on every storey and carbon monoxide detectors, yearly gas safety checks and the requirement that deposits be placed with the Deposit Protection Service. Our research also found that just 8% were opposed to new regulations, while 63% were in favour.

Of course, we totally support the intent of ensuring high-quality private rented housing and recognise that regulation is one way of achieving better standards. But policies for the private rental market must also include measures to tackle wider and more substantive issues.

Two specific issues relate to the stresses faced by private landlords and the lack of integrated policy solutions. The first of these is the uncertainty around Energy Performance Certificate (EPC) requirements, where proposals had initially been that private rental properties should have an EPC rating of C or above for all new tenancies by 2025 and all existing tenancies by 2028. Last September, the Government pushed back these proposals¹³.

However well-intentioned the policy change, its effect was to disenchant those landlords who had already invested heavily to raise EPC levels, while leaving others uncertain about whether and when EPC requirements will be tightened.

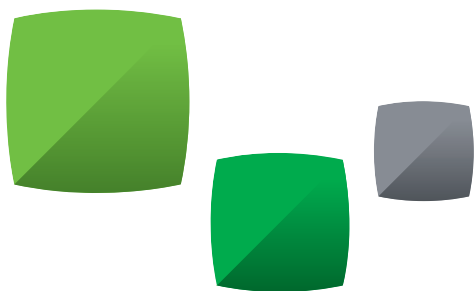
13. Landlords welcome Sunak's energy efficiency rule move (ft.com)



Some even left the market in anticipation of the new rules, only for them to be scrapped. The other major issue is the scrapping in 2020 of tax relief on landlords' mortgage interest costs. The effect has been to raise landlord expenses beyond even the basic rise in mortgage costs. That extra cost is either passed on to tenants or cuts landlords' ability to invest, and may even throw the sustainability of their business into question.

However, as the various pressures on people's ability to own their own home increase, so will the importance of the private rental sector, where the supply of quality homes is already insufficient. Without more positive support, it is likely to shrink further as landlords look for stronger returns in other asset classes, and choose to invest instead in areas with a more certain outlook.

We think there is a golden opportunity to re-incentivise landlords to keep a foothold in the market through the introduction of a decent homes charter standard which would reinstate mortgage interest tax relief and other benefits for those demonstrating responsible practices, thus helping to simultaneously protect tenants' rights. ➤



➤ The patchwork nature of landlord incentives and regulation has not worked and needs to be replaced with an integrated policy that combines targets for property standards with financial incentives.

- **Mortgage interest relief for responsible landlords**

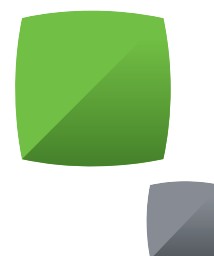
Mortgage interest costs should once again be made tax deductible, but with caveats. The tax relief should be made available to landlords whose property meets certain standards, including those for health and safety and energy efficiency. Such a policy would reduce costs for landlords and so reduce the upward pressure on rents. It would also reward responsible landlords who contribute to the regeneration and renewal of existing housing stock, and create an incentive for improved energy efficiency.

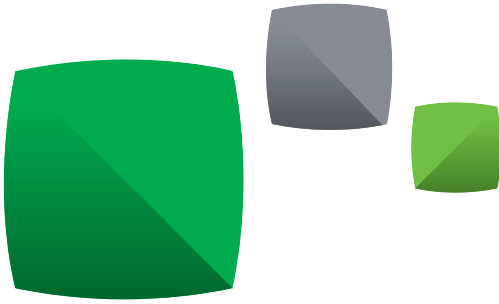
Such a joined-up approach would involve little if any additional administration. Landlords would have to make a declaration on their tax returns that their properties meet the requirements for tax relief – with all the associated penalties for those who attempt to defraud HM Revenue and Customs (HMRC).

Mortgage interest costs should once again be made tax deductible, but with caveats. The tax relief should be made available to landlords whose property meets certain standards, including those for health and safety and energy efficiency.

But lenders will also be a vital part of the process. Responsible mortgage providers will already be assessing buy-to-let properties for these standards as part of their survey and approvals process.

Every element is already in place to combine tax relief for landlords with property and energy standards. It simply requires joining the dots. ➤





Converting commercial to residential

While the UK is suffering from a shortage of affordable housing, the commercial property sector is facing significant upheaval. Some sectors of the commercial property market continue to thrive, notably high-quality properties in prime locations. However, other segments are struggling, for example town centre retail sites and ageing offices.

Converting such properties to residential status has often been proposed as a way to increase the housing stock while regenerating urban centres that have declined as shopping and working habits have changed.

However, while there is a strong argument for more such activity to help meet the country's urgent need for more housing, redeveloping sites like this to higher standards with increased energy efficiency isn't without its challenges, not least the cost involved. Large real estate developers may already have access to the capital required but may lack the incentives to do so. Smaller developers will typically lack access to the capital.

● Government support for commercial-to-residential development

Government support in the form of grants or subsidised lending facilities, potentially provided through existing lenders, would incentivise high-quality conversions of commercial properties to residential use. Support should be linked to meeting EPC standards and other criteria including improving the affordability of the residential properties being created.

Development companies already receive tax relief on interest costs, but with the tax relief proposal outlined above, there is scope for private landlords to be doubly incentivised to buy smaller commercial units for transformation into residential rentals.

Such a scheme would epitomise the joined-up thinking that is required not just to address the UK's housing crisis but to integrate it with wider social challenges: boosting housing supply while regenerating and reviving urban centres that have been in decline and upgrading properties to meet energy efficiency targets. ■

Making green investment in housing easier



Improving the environmental standards of the UK's housing stock cannot be viewed as an isolated issue and must be woven into the fabric of an integrated housing action strategy. The aim of the proposals set out in this paper has been to address the challenges of retrofitting, EPC standards and support for environmentally responsible development.

However, for these initiatives to work in practice, homeowners and landlords need access to the right information and the professional services required to do the job.

- **Coordinated information and provision of green services**

Government, lenders and suppliers of energy efficiency services need to work together to make environmental home improvements easier, by helping homeowners and landlords to access those services from a position of knowledge and confidence.

Education and information for homebuyers and landlords should be integrated into the purchasing process. The success of the environmental elements outlined in this paper will require them to be built into the discussions and processes of property purchases at the earliest stage, backed by wider, clearer, more comprehensive and well-publicised sources of information and guidance for buyers at every stage of the homeownership journey.

The TrustMark scheme launched by the UK government in 2005 provides consumers with information on approved providers of home improvement services. A further accreditation system specifically for tradespeople providing energy efficiency products and services should be created and promoted alongside all the green incentives created by an integrated housing strategy. This would provide would-be homeowners with the knowledge and protection they need to invest appropriately – whether buying a state-of-the-art new build or improving the energy efficiency of an older property – and lenders the necessary safeguards around the use of any funds they provide. ■



Conclusion

Change starts now

The provision of affordable housing for both owners and renters has been a persistent problem in the UK for decades and has now reached its tipping point.

Meanwhile, landlords have been buffeted back and forth by attempts to regulate the sector, while taxation and regulatory changes have created uncertainty and higher costs. Partly because of these factors, rental properties are now more expensive than ever and responsible landlords feel they are being driven out of the market.

The time for piecemeal measures and knee-jerk policymaking is over. Our recommendations are designed to provide a blueprint for strategically-planned, meaningful change.

The UK needs a coordinated housing plan that helps those who want to buy, stops disincentivising existing homeowners who wish to downsize from doing so, and helps landlords operate in a fair and stable environment that enables them to make a sustainable income from their investments in order to continue providing much-needed homes.

In this paper we have aimed to outline key elements of such a housing plan. It is a bold proposal, and any resulting plan would require a great deal of analysis and study to ensure it could be effective.

The scale of the housing challenges facing the UK are the most significant in living memory. We need a coordinated national plan to match.