



BILLET D'ÉTAT

WEDNESDAY, 26th FEBRUARY, 2003

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BILLET D'ÉTAT

**TO THE MEMBERS OF THE STATES OF
THE ISLAND OF GUERNSEY**

I have the honour to inform you that a Meeting of the States of Deliberation will be held at **THE ROYAL COURT HOUSE, on WEDNESDAY, the 26th FEBRUARY, 2003, at 9.30 a.m.**

**STATES ADVISORY AND FINANCE COMMITTEE AND STATES
HOUSING AUTHORITY**

**THE DEVELOPMENT OF A HOUSING STRATEGY AND CORPORATE
HOUSING PROGRAMME**

The President
States of Guernsey
Royal Court House
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24 January 2003

Dear Sir

**THE DEVELOPMENT OF A HOUSING STRATEGY AND CORPORATE
HOUSING PROGRAMME**

EXECUTIVE SUMMARY

- **The States agreed at the Policy Planning debate in July 2002 to the development of a Corporate Housing Programme (CHP) to fulfil the objectives of the emerging Housing strategy.**
- **The purpose of the CHP is to cut across individual States Committee mandates to create a structure that enables States departments and non-governmental bodies to work together to achieve results.**
- **Contrary to popular perception, a great deal of new housing has been provided over recent years to meet increased demand and, where development has taken place on States land, to deliver housing at more affordable prices using the States' powers as site owner.**
- **The Housing Authority has also made progress in targeting specific provision to meet different housing needs such as sheltered housing development and housing for vulnerable young people (in association with the Children Board).**
- **A summary of recent and current Housing Authority initiatives is set out in Section 2 of the policy letter. It is recognised, however, that this is not enough to manage the Island's housing needs effectively nor can the Authority address all these needs in isolation.**

- As well as working on these initiatives and meeting its day to day operational commitments, the Authority has also carried out major studies of housing need and (with the Advisory and Finance Committee) the economic operation of the Guernsey housing market.
- The studies provide, for the first time, a solid factual basis for making future decisions about housing policy and how best to provide the houses people need at affordable sale prices and rents.
- A copy of the Housing Market Study Report is appended to the policy letter. It is a revealing document that explains the way in which the Island's buoyant economy, full employment and the ability to borrow 'cheaply' to fund mortgages have had a major impact on the spiralling cost of homes and private sector rents. The report calls for a more holistic approach to housing policy that deals with 'demand' factors as well as housing supply issues.
- The report also reveals the way that public money is used and fiscal policy operates to subsidise home ownership (across all income groups) and States housing whilst private sector tenants receive little assistance with their housing costs.
- The key findings of the Housing Needs and Housing Market Studies are set out in Section 3. They demonstrate that we need a much better co-ordinated approach to housing matters if we are going to manage the demand and supply successfully.
- This message is reinforced in Section 4 which explains the way that housing policy interacts with other policy areas such as those dealing with population, land use planning and sustainability.
- Importantly, the sub-section dealing with population issues emphasises that it is the increasing number of small households seeking accommodation rather than population increase as such that is the main demographic factor driving demand.
- Section 5 lists what the Committees see as the Principal Objectives of the Housing Strategy and explains the way the CHP can be organised to meet them. This involves Lead Committees taking responsibility in future for specific Action Areas and producing annual action plans for implementation by all States departments and non-governmental bodies involved in housing.
- It is proposed that the first action plans (for 2003/4) will be reported to the States in July through the Policy & Resource Planning Report 2003. They will then be reviewed and rolled forward each year. The Sustainable Guernsey Monitoring Report will show how the Programme is progressing in terms of strategic housing targets.

- **Section 6 explains that it is intended, in future, to allocate resources to the CHP rather than to individual States Committees. In this way, resources can be managed in a more flexible way than in the past enabling support to be given where it is needed to carry out the action plans.**
- **The CHP is a framework for tackling States priorities in a more focused, better integrated way but it requires political support, adequate resources – especially human resources - and the willingness to take a fresh approach to long standing issues. It anticipates the approaches that may emerge in future under the direction of a Policy Council.**

1. INTRODUCTION

The shortfall in the provision of sufficient decent and affordable housing to meet demand has been the single most controversial issue on the political agenda for many years, indeed for decades.

Paradoxically, however, while people hold widely varying opinions about the causes and effects of the local ‘Housing Crisis’, there is also a prevalent view that solutions should be relatively easy and quick to identify and implement if only the political will was there.

This perception is probably strengthened by the expectation that in a small and affluent community with its own system of government, it should be possible to understand and deal with important social issues without the need for much ‘navel gazing’.

Against this background, the Housing Authority has faced considerable criticism during the last couple of years that it has been spending too much time and money on fact-finding and analysis rather than simply getting on with the job and providing more homes.

Through the 2002 Policy & Resource Planning Report, however, the Advisory and Finance Committee supported the stance taken by the Housing Authority to balance immediate action where a positive way forward was clear, with the development of a strategy to tackle complex issues over the medium and longer term.

At the Policy Planning debate in July, the States approved the development of a Corporate Housing Programme (CHP). The Policy & Resource Planning Report (paras 3.9.23 – 3.9.24) explained the purpose of the CHP as follows:

“The purpose of the CHP is to provide a specific framework for translating the emerging Housing Strategy into effective action.

Through the Programme, all States Committees with responsibilities for addressing housing issues will be committed to work together in a co-ordinated way and against

an agreed timeframe, to meet strategic objectives that cut across the mandates of individual committees”.

The purpose of this policy letter is to present the States and the wider public with an interim progress report that:

- **Summarises what we now know about the overall housing situation in the Island as a result of recent studies and investigations**
- **Relates this information to current States’ policies**
- **Sets out the principal objectives for a States Housing Strategy**
- **Outlines the proposed organisation of the Corporate Housing Programme (CHP) to meet those objectives.**

It is intended that the contents of this report will be the subject of further consultation during the Spring and that the Housing Strategy and the CHP for 2003/2004 will be presented to the States for approval in July as part of the Policy & Resource Planning Report.

Although this policy letter draws on the very substantial body of research and background information which is now available, it does not attempt to review all this material in detail. Instead, the report aims to distill a great deal of complex information into a set of key findings and to present a practical framework for acting on them.

2. BACKGROUND

As stated in the Introduction, housing problems in Guernsey have a long history. This has been reflected over the years in a series of special investigations and reports.

Writing in 1972 as President of the Housing Control Law Investigation Committee, Deputy Wheadon remarked that:-

“The States have for many years been faced with the demand for accommodation exceeding supply; and prices have been subject to continuous increase.”

In 1991, the States agreed strategic action to increase the supply of housing, depress artificially high land values and create a distinct category of ‘need’ housing.

Throughout the 1990s, however, there was a reluctance to implement a ‘need’ housing system. The reasons for this were encapsulated in the 1998 “Discussion Document: Population and Housing Policies” which was presented to the States as an annex to the Policy & Resource Planning Report. The salient passage reads:-

“1991 Housing Strategy

3.7.2 *The Housing Strategy adopted by the States in 1991, on the other hand, would entail a considerable degree of intervention by the States, if implemented in full, as described in Sections 2 and 3 above. Legislation to give full effect to the Housing Strategy would result in a strict distinction between “need” and “demand”, effectively creating two housing markets. Moreover, control by the States over all forms of “need” housing, through sustained price controls, could result in owners of such “need” housing subsequently being unable to buy into “demand” housing. Section 3 above outlines the Housing Authority’s reasons for not implementing such interventionist and administratively cumbersome controls, and these arguments were once again rehearsed in response to the Requete debated by the States in March 1998.”*

Following intense debate about the lack of affordable housing during the States elections in 2000 and the subsequent Requête considered in June that year (Billet d’Etat XX, 2000), the Housing Authority presented an interim report on the housing situation to the September 2000 States meeting. The report explained, amongst other things, the work already being done to address public concerns through a range of proposed housing developments on States land and the commissioning of a Housing Needs Survey. The Housing Needs Survey was intended to build on research undertaken for the Population and Housing Policies Discussion Document in 1998 and to revive the question of “need” housing provision.

Since 1998, the Housing Authority, recognising the inability of market forces alone to provide housing for people with modest incomes, has taken a two-pronged approach to deal with housing issues:-

- **to use its existing land holdings to facilitate the development of a range of housing at more affordable prices**
- **to extend its understanding of the local housing situation through the Housing Needs Survey and other studies.**

Progress during 1998 – 2002

The Housing Authority undertook a range of initiatives between 1998 and 2002.

The following list provides a very brief summary of this work:

- Sold States property for housing development/redevelopment
 - Approximately 90 dwellings at Grandes Maisons Road (HTA9), Amherst, and the Bordage

- Built additional dwellings
 - 11 flats at Les Guelles and Route de Carteret
 - Replaced 16 single person bedsits at Courtil Jacques with 20 two-person self-contained flats
- Established proactive long-term States House refurbishment and enhancement programme (£60m – 30 years)
 - Stock Condition Survey
 - Prioritisation of estate renovations
 - Reorganisation of funding arrangements – creation of States House Fund
 - Identified innovative procurement method – “partnering”
- Facilitated establishment of Island’s first Housing Association
 - Researched how Housing Associations are operated, funded and regulated in UK and Jersey
 - Promoted and obtained “in principle” States agreement to their establishment (February 2001)
 - Negotiated principles for formation, funding and regulation of Guernsey Housing Association
 - Following States’ agreement (September 2001), negotiated detailed terms of agreement, constitutive documents etc (concluded March 2002)

Current initiatives include:-

- Leading interdepartmental working party looking at all aspects of provision of “key worker” accommodation
- Establishing (and funding) Youth Housing Project with Children Board
 - Drop-in advice centre, 7 training flats, emergency beds in community
 - To be run by National Children’s Home under contracts/service level agreements yet to be drawn up
- Negotiating detailed “partnering” arrangements for estate refurbishment programme with preferred contractor – pilot projects commenced
- Pursuing infill and development opportunities on three existing estates
- Transferring three sites to Guernsey Housing Association for redevelopment
 - 80+ additional units (50% increase)
 - Significant decanting issues to be resolved
- Negotiating detailed working arrangements with Guernsey Housing Association
 - Joint waiting list
 - Nomination arrangements
 - Allocation policies

- Concluding negotiations with Housing 21 Consortium for Rosaire Avenue sheltered housing scheme
 - Tenure mix – predominantly affordable rental, some affordable lifetime leases, some private sales
 - Homes for life – on-site care and community facilities – involves BOH
 - Grant level and other funding issues – service and care costs – involves BOH and GSSA
 - Series of detailed contracts to be drawn up
- Carrying out comprehensive review of States Rents and Rebates Policy
- Reviewing all tenancy policies and procedures
- Establishing Anti-Social Behaviour Strategy
- Introducing tenant participation/tenant consultation initiatives
- Reviewing States Home Loans Scheme
 - policy and detailed administrative issues
 - with AFC, commissioning replacement computer system
- Reviewing Housing Control Law – expires 2004
- Specifying and commissioning major enhancements to Housing Control computer system

In addition, the Housing Authority is committed to:

- Pursuing further infill and development opportunities on existing estates, e.g Courtil Jacques Phase 3, Victoria Avenue flats
- Redevelopment of Grand Bouet estates (230+homes)
- Redevelopment of sheltered housing at Maison Le Clement
- Planning major refurbishments of Longue Rue House and Maison Maraitaine
- Replacing deficient Housing Information Management System.

The next section of the report explains the studies which have been proceeding in parallel with the work itemised above.

3. HOUSING IN GUERNSEY – RECENT RESEARCH

The Housing Needs Survey

The Housing Needs Survey was carried out during 2000/2001 by Opinion Research Services Limited (ORS) a limited company operating from the University of Swansea.

A Housing Authority policy letter about the findings of the survey was presented to the States in May 2002 (Billet d’Etat IX, 2002).

The objectives of the survey were:-

- To identify and quantify housing needs and demands
- To obtain accurate information to allow Authority to recommend:
 - the quantity and type of housing required to meet housing needs
 - policies and programmes required to meet those needs
- To assist in identifying opportunities to make better use of the existing housing stock
- To assist in the administration of the Housing Control Laws
- To establish a socio-economic profile of those most likely to have difficulty meeting their housing needs.

The ‘Planning Implications and Main Conclusions’ section in the executive summary of the survey report reads as follows:-

“The Housing Shortfall

The study has shown a likely demand for housing from 1,814 households in Guernsey over the next year. The majority of this requirement (68%) is from likely mover households, with a further 21% as a result of hidden households emerging into the market, and 11% as a result of in-migration. This overall requirement is off-set by a projected supply of 1,635 dwellings, as vacancies are created by households moving within Guernsey, out-migration from the island and household dissolution.

Whilst there is a general match between supply and demand for housing in the Local Market owner-occupied sector at prices above £250,000, there are significant shortfalls of homes below this threshold, and particularly of two and three bedroom properties at prices of up to £175,000. The small shortfall in the social rented sector is primarily of one and two bedroom properties. The evidence of surplus homes in the private rental sector is mainly of one and two bedroom homes at rents of between £100 and £200 per week.

Similar trends are evident over a five year period, with an overall projected shortfall of 911 dwellings over such a period; an annual housing requirement of an additional 180 homes. However, this shortfall masks difference across individual tenures.

The housing market model estimates a shortfall of over 2,300 homes in the owner-occupied sector of the local housing market (a requirement for more than 460 additional owner-occupied homes each year), together with a shortfall of almost 200 homes in the social rented sector. Although these shortfalls are, to some extent off-set by projected surpluses of accommodation in the private rented sector, the survey evidence suggests that this is unlikely to satisfy longer-term housing requirements. Thus, whilst in the absence of sufficient affordable home ownership, the private rented sector may provide a valuable source of relatively easy access to the local housing market, if the very significant shortages in the owner-occupied sector are not

addressed then some households may feel trapped in rented accommodation frustrated by their inability to realise their aspirations for home ownership, or remain involuntarily sharing with family or friends.

Affordability Issues

The survey has provided evidence of significant problems of affordability for many of those seeking access to home ownership in the Guernsey housing market. A small number of households are seeking to access one bedroom accommodation at prices below £100,000, which represents the most they can afford. However, such housing is unlikely to be available. Of those who are seeking two bedroom owner-occupied housing, where we have estimated the minimum quartile to be in the range £125,000 - £175,000, almost two thirds are unable to afford access to this price banding, whilst a further 25% can only afford property between £125,000 and £175,000. Where households have a requirement for three-bedroom property, then we have estimated that 85% cannot afford to access properties in the minimum quartile of between £175,000 and £250,000.

Meeting the Housing Shortfall

The identifiable problems of affordability within the owner-occupied sector of Guernsey's local housing market suggest that there is a strong case for additional intervention, both to provide extra social rented homes (above and beyond those identified above), as well as forms of shared ownership, whereby households are able to part buy and part rent their homes.

The study has shown that of those households who are likely to be seeking home ownership of a size-price match unlikely to be available in the market at the prevailing minimum thresholds, 46% (who answered the LCHO question) said they would be likely to consider shared ownership as a housing option.

Our analysis has shown that 10% of households seeking property below the price-size threshold could pay more for an appropriate property, which they could objectively afford without shared ownership assistance. A further half could afford to purchase at least a 50% share in the equity of a shared ownership home (paying rent on the balance) – almost a fifth of the total being able to afford 75% or more of the required equity. Therefore, shared ownership is not only identified as a realistic tenure option by some of Guernsey's residents, but is also an achievable and affordable alternative for them.

The States of Guernsey 2001 Strategic and Corporate Plan makes it clear that the Strategic Land Use Plan, contained within it, needs to consider the amount and location of future housing requirements for Guernsey. In particular, it sets a benchmark target figure of 250 additional homes each year over the period 2001-2016 to meet latest and future demand for extra housing. However, it recognises that this target may require adjustment in future years, and that better evidence is needed

to consider these future housing requirements in terms of housing type, size and tenure.

This study of Guernsey's housing needs and demands begins to provide this. Whilst the study would suggest on first analysis, that such a target is sufficient to meet the overall shortfall in housing requirements, more detailed analysis suggests that this is unlikely to be the case. The survey highlights significant shortages in the owner-occupied sector, particularly of two and three bedroom properties at more affordable prices.

It will thus be important for housing and planning policies not only to consider how they might respond to these levels of expressed demand, but also how the housing and planning systems can deliver the appropriate amounts of affordable new housing, either in the form of full home ownership, social rented housing, or through schemes of shared ownership. It may well be appropriate for the States of Guernsey to consider what policy instruments it needs to introduce to ensure the local provision of elements of affordable housing in different parts of the Island, and how this might vary across individual development sites.

What is evident is that, to address future housing needs and demands, policies will need to specifically encourage a wider mix of market and subsidised social housing, and to ensure that these are successfully integrated into the existing built environment."

In accordance with the findings of the report, the States agreed, inter alia, a Housing Authority recommendation to raise the Strategic Housing Requirement target to 300 new homes per annum (see section 4 of this report – which refers to this in greater detail under 'Land Use Planning Policy').

The States also agreed that the findings of the survey should be used to address the measures needed "to influence the provision of houses of various tenures, size and price".

The Housing Market Study

An economic study of Guernsey's housing market was jointly commissioned by the Housing Authority and Advisory and Finance Committee in 2002.

A full copy of the study report prepared by the Law and Economics Consultancy Group (LECG) forms an appendix to this policy letter.

The report is important because it explores for the first time the economic demand factors that influence the housing market and the affordability of homes. Although this was considered briefly in the 1998 Discussion Document on Population and Housing, the impact of local economic conditions including 'cheap' borrowing and

high levels of employment have never before been fully evaluated in terms of their effect on housing.

The Housing Market Study report articulates in great detail the need for policy to address the economic demand as well as supply sides of each sector of the housing market through an integrated strategy.

The specific implications of the Report are dealt with in subsequent sections of this policy letter.

Anti-Poverty Research

In addition, to the Housing Need and Housing Market reports, the findings of recent anti-poverty research also have important significance for the development of the Housing Strategy.

The Survey of Guernsey Living Standards, published in March 2002, identified the high cost and often relatively poor quality of housing in Guernsey as a major issue, particularly for the poorer sections of society. A report subsequently commissioned by the Advisory and Finance Committee on a range of possible anti-poverty policy options further identifies that housing is one of the major areas, if not *the* major area that needs to be tackled in order to alleviate relative poverty in the Island.

The Committee's Social Policy Working Group which is currently working on producing an integrated strategy to alleviate relative poverty, recognises that this will be most effectively achieved as part of a comprehensive programme rather than as individual projects.

Key findings of recent studies

Recent studies have provided us with complementary analyses of the housing situation in the Island.

The key points which have emerged from, or been confirmed by these studies may be summarised as follows:-

- **States housing policy, to date, has not been sufficiently holistic in its approach. Clearer corporate objectives and co-ordinated action are necessary to meet the Island's housing needs.**
- **Government intervention to date has been heavily concentrated on managing supply side issues with too little consideration of the demand side. High house prices are, in reality, very strongly driven by demand side factors.**

- **Current mechanisms for ensuring that new housing is in alignment with the profile of local needs are inadequate. It is relatively easy to set a strategic target for the provision of a certain number of new homes each year but much harder to ensure that new housing is affordable.**
- **Issues about tenure are important and the States has choices to make about the way it applies public money to subsidise owner-occupiers, and tenants in all sectors. At present, subsidies are mainly directed towards owner-occupiers and States tenants. Private rental sector tenants receive little assistance.**
- **New housing provision needs to include accommodation to meet a range of different housing needs in terms of household size but also in terms of special needs such as sheltered housing for older people and housing for people with disabilities.**
- **Poor housing is a major contribution to the problems of relative poverty and needs to be addressed as part of an overall anti-poverty strategy.**
- **19% of Island households live in private rented housing where rental levels have risen even more steeply than house prices. The cost and standard of accommodation is subject to very little regulation. The worst housing in Guernsey is to be found in the private rental sector.**

4. CURRENT LAW AND POLICY – HOUSING IN CONTEXT

Population Control and Licensing

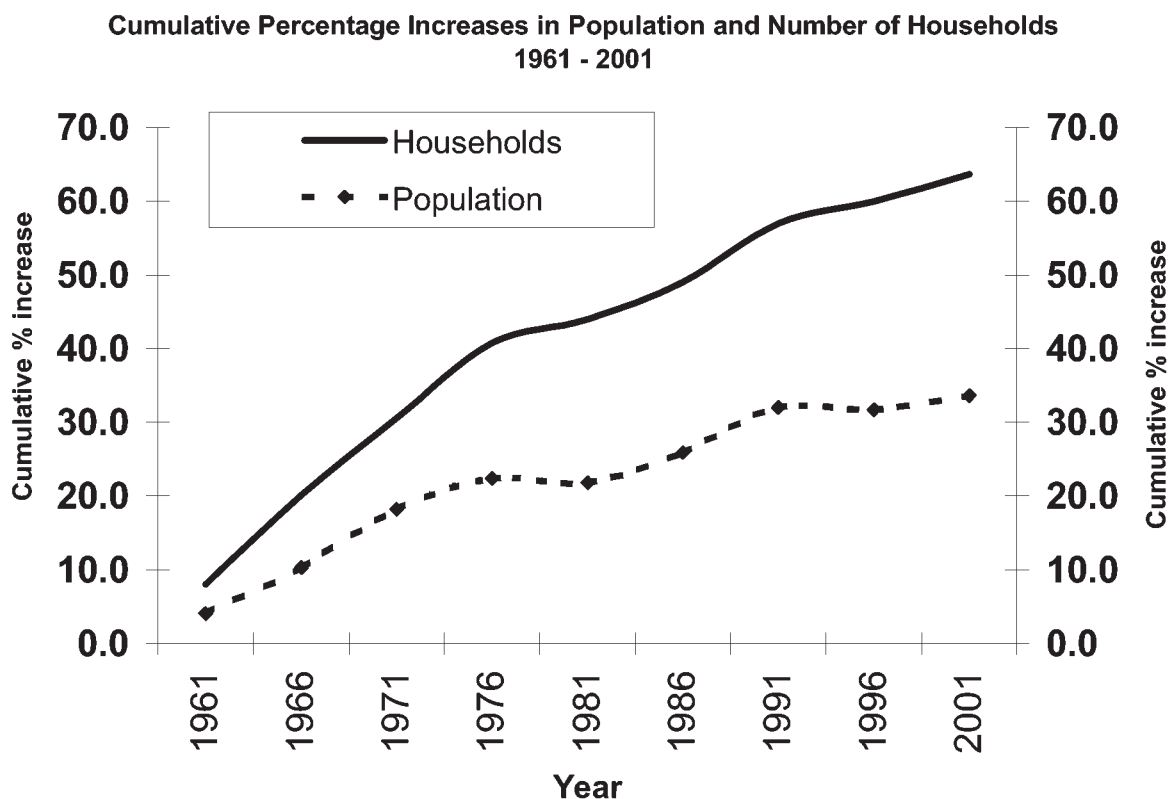
In 2000/2001 the Population Working Party reviewed population policies and concluded that although the housing licensing system clearly had an effect on immigration, the main reason for the increase in Guernsey's population size would arise from longevity. It also noted that at any time only 6-7% of the population is resident under housing licences. (See Policy & Resource Planning Report 2001 S.2.9.)

The report on the 2001 Guernsey Census published in August 2002 confirmed a total resident population of 59,807. The report also stated that:-

“4.2 The number of people in an average household has fallen from 2.55 to 2.51. Single and couple alone households have increased and couple plus children households have declined. However, the fall over the intercensal period is smaller than would have been predicted from trend. Part of the reason is the increase in persons per household in private-let open market households.”

The rising demand for housing over recent years relates strongly to the trend towards smaller households each seeking independent accommodation. Similar social changes are also driving housing demand elsewhere, including the UK.

The following graph shows the relative increases in population and in the number of households in Guernsey for the period 1961 – 2001.



Corporate States policy for population is embodied in the annual Policy & Resource Planning Report and it provides that the main population control measures should continue to be the Housing Control Law and Right to Work Law.

This relationship between population management and housing emphasises the need for the housing strategy to maintain a balance between the adequate provision of homes and the control of immigration.

In this respect, an over-supply of new homes in relation to local need would undermine the rationale for immigration control based on the availability of housing.

In doing so, it would run counter to States policy for a sustainable approach to development given the very limited land resources of the Island.

On the other hand, there is a strong local perception that significant numbers of Islanders are emigrating because of a lack of affordable housing. The Census records a rise in emigration between 1996 and 2001 but it cannot be used to confirm the reasons for people deciding to leave Guernsey.

Ensuring that there is reasonable access to affordable housing, however, would allay concerns that local people with modest incomes are being “forced” to leave the Island for housing reasons.

Fiscal Policy and the application of subsidies

Although there is no formal States’ policy favouring home ownership over other forms of tenure there is a strong local tradition of home ownership and a prevalent view that people should be enabled to buy rather than rent their homes. The Housing Market Study Report queries whether the presumption in favour of home ownership is necessarily a realistic expectation given that levels of home ownership are already so high.

“Owner occupation is the dominant form of housing tenure. The 2001 census found that 72% of households are owner occupiers, 19% are in private rental and 9% are States’ tenants. The owner occupation rate is one of the highest in Europe and raises questions about the level to which it can reasonably rise.”

Against the background of long-held expectations and the undeniable fact that home ownership has been a very profitable form of investment during the post-war years (notwithstanding periodic downturns), home ownership is, inevitably, a highly political issue.

The Housing Market Study gives a comprehensive analysis for the first time of the way that the Island’s fiscal policy has reinforced other external economic demand factors in promoting home ownership and unintentionally raising the price of housing.

For a Housing Strategy to be successful it needs to take account of this and to consider the impacts of all forms of public subsidy in meeting policy objectives. This includes subsidies through mortgage interest tax relief, tax on rateable values, States home loans and States house rents.

The issue is a complex one and the greatest care and circumspection are needed before intervening in this area. Clearly, it would be disastrous to embark on measures that would destabilise the housing market and this is in no way advocated. It would be equally indefensible, however, to ignore the findings of

the Housing Market Study and to focus only on supply-side issues now that the full significance of demand-side factors has been identified.

The Intermediate Housing Market (IHM) – meeting the need for affordable housing

The IHM is the term currently used to describe the housing available to those ineligible for accommodation in the States housing sector who cannot afford to buy homes in the general housing market.

With States approval, the Housing Authority has already enabled the establishment of the Island's first, substantial Housing Association in order to address the needs of the Intermediate Market. The Housing Strategy has to explore the means by which housing can be provided through a range of non-governmental agencies to make appropriate use of private sector finance and expertise.

Such agencies are well-placed to provide housing to meet the need for good quality rental accommodation and also to provide new forms of tenure (as identified in the Housing Needs Survey) such as partial ownership schemes. Partial ownership may be the most practical route to home ownership for some households.

One purpose of the Housing Strategy will be to encourage innovative forms of housing tenure and to widen the choice of homes available. Bearing in mind the recent Requête concerning self-build, equity sharing homes (Berry Requête, Billet d'Etat XXIII, 2002) the strategy should give positive consideration to initiatives that can be shown to meet a demonstrable, local need.

States Housing

9% of Guernsey households occupy States' rental property which is reserved for locally-qualified residents. The Housing Market Study analyses the sector in some detail and identifies the substantial subsidies directed to provide lower rents to States tenants in comparison with private sector tenants. States housing policy to date has been to reserve States houses for families with dependent children and people of pensionable age who are on low or modest incomes.

Although some established tenants earn well above the average States household income of £14,500 (as at 2000) encouraging such people to move elsewhere in order to free-up rental accommodation is largely stymied by an absence of alternative affordable housing.

Tackling the needs of the Intermediate Housing Market should help to ease this situation by offering States tenants other choices including partial home ownership and housing with security of tenure and affordable rents via housing associations.

The Authority will also be working with housing associations to increase the number of social rented and other affordable units of accommodation, as well as continuing with the established refurbishment and enhancement programme to ensure that the States housing stock is maintained and renovated. This long term programme needs to be recognised as part of the Housing Strategy.

Private Rental Housing

19% of Guernsey households live in privately rented accommodation which varies widely in price and quality.

At the upper end of the market are properties of a high standard where expensive rents may be readily paid by more affluent tenants. There are also some landlords who offer decent accommodation at reasonable rents. Additionally, in an Island with a high level of immigration and emigration the availability of rental accommodation is a positive factor which facilitates movement in the market. It also assists house moves within the local area.

The Housing Market Study has noted, however, that overall rental levels are high and have risen even more steeply than local house prices. This impacts heavily on the lower end of the private rental market where accommodation can be very poor indeed and subject to exorbitant rents.

In the seventh Annual Report of the Director of Public Health for the year 2000/01, the Director commented that:

“The links between housing standards and health are well established and were a frequent cause of concern to previous MoHs. In 1921, the then MoH, Dr Henry Draper Bishop wrote:

“It is the duty of an MoH to consider the housing question as one of the most important questions with which he is concerned, and when looking over my past Reports, I find that I have devoted a great deal of space year after year to this question”.

It is therefore sad to report that some 80 years later, as the Island enjoys a new period of prosperity, there are still many individuals and even mothers with young children whose housing conditions verge on being “unfit for human habitation”. From time to time it is also still necessary to issue a “closure notice” on premises in the private sector which fall below even this fairly basic standard.

Ensuring adequate standards within the private sector is not easy. In our present “overheated economy” most properties (even those in an unsatisfactory state of repair) are let quickly, and some landlords will consider there is little incentive and often only heartache in trying to upgrade such premises.

Additionally, many of those forced to occupy the cheapest rented housing are the most vulnerable members of our community, including single mothers and those with previous mental health or substance abuse problems. They are therefore often reluctant to complain for fear of losing what little physical security their unsatisfactory premises provide. The small number of “closure notices” actually issued reflects undoubtedly just the tip of a far larger “iceberg” of properties in poor repair.”

Recent inter-committee discussions initiated by the Cadastre Committee have aired continuing concerns about the relative ineffectiveness of The Rent Control (Guernsey) Law 1976.

Action to make the legislation more effective is under consideration but this alone will not deal with the long-standing problems referred to by the Director of Public Health.

The goal for the private rental sector is to raise standards and where necessary, to moderate rents without reducing the overall number of homes available in that sector of the market. It would be a pyrrhic victory indeed if poorer tenants were further disadvantaged by well-meaning efforts to improve their quality of housing.

With this in mind, the Housing Strategy needs to identify ways in which private rental accommodation can make a more effective contribution to the housing market in future. This should involve encouraging good landlords as well as putting effective pressure on those whose properties do not meet adequate standards.

Land Use Planning Policy

There is a vital relationship between land use planning and housing supply at the strategic planning level through the annual review of the Strategic Land Use Plan (SLUP) and through the related policies for housing in the Detailed Development Plans prepared by the Island Development Committee.

In accordance with States decisions on the findings of the Housing Needs Survey, the review of the SLUP in 2002 raised the strategic target for provision to enable an adequate supply of new housing to come forward.

The 2002 Policy & Resource Planning Report (section 8.3) explained the situation as follows:-

“8.3 THE HOUSING REQUIREMENT

8.3.1 *In previous years, the Island’s housing requirement has been deduced from an analysis of demographic information mainly obtained from the census. This generated the benchmark target (incorporated into the 2000*

and 2001 Strategic Land use Plans) that provision should be made for an additional 250 homes to be created each year.

- 8.3.2** *In September 2000, the States endorsed a major policy letter on the housing situation from the Housing Authority. The policy letter identified the need for a Housing Needs Survey to inform the preparation of a comprehensive strategy to deal with the provision of housing.*
- 8.3.3** *The survey, carried out by a limited company operating from the University of Swansea, has since been completed and its findings were reported to the States by the Housing Authority in May 2002.*
- 8.3.4** *The survey report examined a number of options for setting a new strategic target for the provision of additional homes but the States agreed with the Housing Authority's recommendation that a target of providing for 300 new homes should be adopted on an interim basis for three years only.*
- 8.3.5** *The figure of 300 homes substantially exceeds the minimum of 179 homes needed to satisfy the net annual shortfall in housing units identified by the Needs Survey. It is intended to provide for a sufficient 'surplus' to cater for the needs of a backlog of potential new householders wanting to obtain independent accommodation and to provide some spare capacity in the system to enable a better 'fit' between the size and type of housing people want and the accommodation that is available.*
- 8.3.6** *The effectiveness of the strategic target in enabling the development of an adequate supply of new homes will be monitored annually and will be fully evaluated at the end of the three-year period in the 2005 Policy and Resource Planning Report.*
- 8.3.7** ***Strategic Policy 1***
- Arrangements will be put in place through the Detailed Development Plans to ensure that provision is effectively made to create 300 new homes each year.***
- 8.3.8** *The above policy provides guidance for the preparation of Development Plans and the provision of infrastructure. It relates to the strategic land use planning aspect of States policies for housing but cannot, in itself, ensure the carrying out of development."*

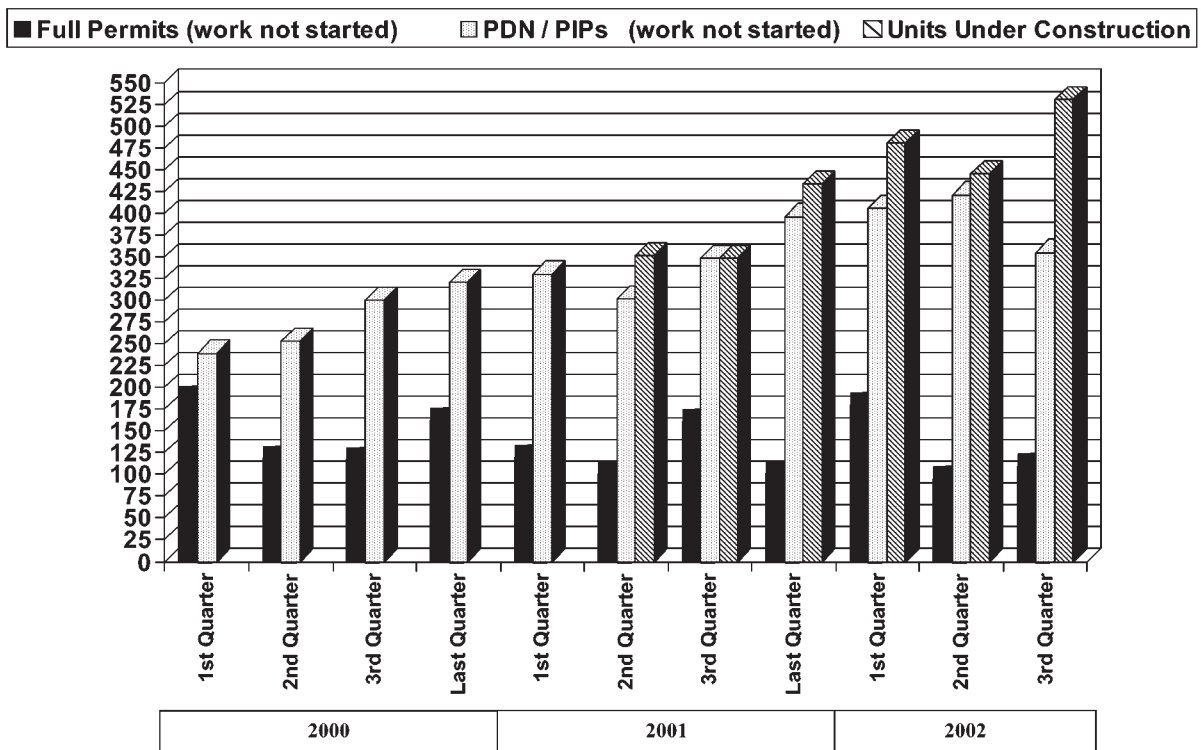
Para 8.3.7 makes the very important point that land use planning cannot, of itself, ensure that the right amount or type of housing is built. It can only make sure that the land supply and housing development opportunities are in place.

In this respect, the Urban and Rural Area Plans system introduced during the mid-1990s has been successful as the number of planning permissions being granted for new homes has met the strategic target even though this increased from provision for 180 to 250 and now, to 300 homes.

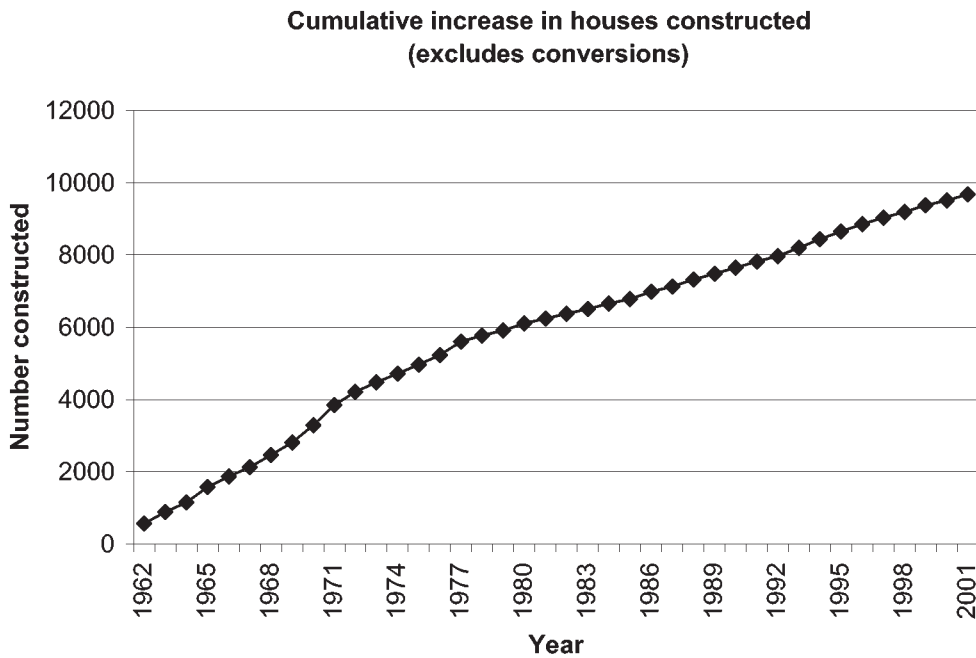
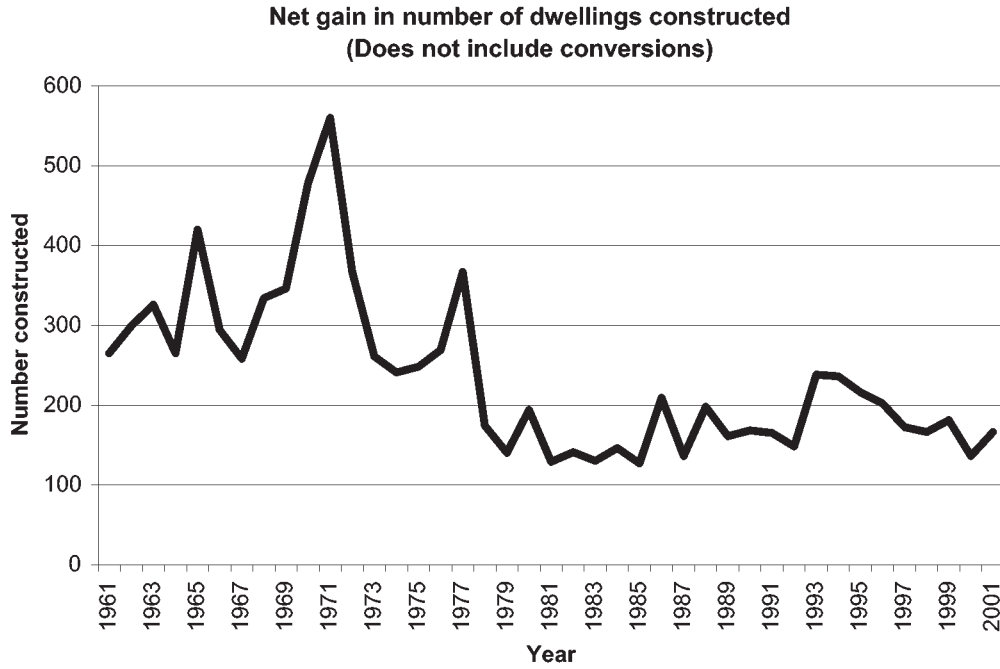
The latest monitoring figures collated and analysed by the Island Development Committee (IDC) for the third quarter of 2002 (July-September) show that there were in total 994 additional units (750 urban/244 rural) either under construction or 'in the pipeline' with some form of planning approval at the end of September. This represents 3 years housing land supply. (Where new housing is being created through redevelopment, the loss of any existing units is subtracted from the new build figure to ensure that the figures show net gain).

The following bar chart supplied by the IDC indicates the numbers of additional housing units that have received planning permission in each quarter since January 2000. This includes dwellings created through change of use and conversion. The chart also shows quarterly construction figures for the second quarter of 2001 onwards; the period for which these figures are available.

Further graphs, based on information provided by the Cadastre Committee, are also set out below to show the numbers of new homes constructed over the last four decades. These figures do **not** include homes created by change of use or conversion.



The graph gives a “snapshot” of the status of housing land availability at the end of each quarter. The numbers are not cumulative.



N.B. As explained in Section 6 – Information Technology, one of the difficulties involved in presenting a clear picture of the housing situation is the lack of integration in the information collected by different States committees. This means that direct comparisons cannot be made between the IDC and Cadastre Committee figures.

During the 1990s, the Urban and Rural Area Plans included a mechanism for need housing to be provided in accordance with Outline Planning Brief in Housing Target Areas, Action Areas and Mixed Use Redevelopment Areas.

The States was, however, reluctant to introduce the necessary legislation to put the mechanism into effect nor, crucially, had a Housing Needs Survey been undertaken to establish what 'need housing' might be.

During the 1990's there was, as previously explained, a continuing reliance on the commercial market to resolve the situation and a prevalent view that housing need would be met if housing land supply was sufficiently generous.

Although IDC used what powers it had to encourage smaller and, therefore, more affordable units to be built, this was at best a blunt instrument. The Committee has, for example, been able to encourage the development of new and converted flats in the Urban Area and this is now having a substantial impact in the market but prices still exceed what many can afford and flats in Town cannot meet the requirements of all types of household.

Closer integration between housing and planning policies under the auspices of the Housing Strategy and the enactment of the new Island Planning Law will, for example, enable IDC to explore the use of Planning Agreements requiring the inclusion of 'affordable' housing within commercial housing developments.

It should also be possible to work more effectively with the local development industry to ensure that new housing provides the range of accommodation households require avoiding an over-supply of any one kind.

At the time of writing, it is anticipated that an Advisory and Finance Committee policy letter seeking States' approval to prepare the Belgrave Vinery Housing Target Area for future phased development will be presented in the same Billet d'Etat as this report.

The Belgrave Vinery policy letter explains that, as States owned land, the Housing Target Area may be used to provide affordable housing through a variety of mechanisms and a mixture of tenures.

Sustainability

The 2001 and 2002 Policy & Resource Planning Reports have established the concept that economic, social and environmental policies have to be applied in an integrated way to ensure that Guernsey has a sustainable, long-term future.

Taking a far-sighted perspective through the Housing Strategy does not mean finding excuses not to act, but it does mean ensuring that housing policy is consistent with

other important considerations such as our ability to maintain a sound economy and to protect the environment.

The annual report “Sustainable Guernsey - monitoring social, economic and environmental trends” will, in future, provide the vehicle for the authoritative reporting and evaluation of progress against the stated objectives of the Housing Strategy.

Last year’s Sustainable Guernsey Report (Pages 103 and 104) set the scene for this approach and pointed out the importance of developing a corporate system to collate information about housing on an ongoing basis, in order that housing policy can be monitored and tailored to changing needs.

The concept of sustainability can also extend to innovation in the forms of housing construction and standards of energy conservation and efficiency.

The Board of Industry’s report to the States on the Construction Industry and the States Capital Spending Programme (Billet d’Etat VI, 2002) explained that modern construction methods can reduce labour input and improve productivity. The Housing Strategy should encourage the use of such methods as part of the drive to reduce construction costs and pressure on the limited resources of the local building industry.

5. THE HOUSING STRATEGY AND CORPORATE HOUSING PROGRAMME

The overarching policies which guide the conduct of government in Guernsey are set out in the annual Policy and Resource Planning Report (Appendix II – P&RPR 2002).

The only direct reference to housing at this level comes within the Strategic Policy Statement on Social Issues which states that:-

“The aspirations of the community can best be met if social conditions are such that people:

... are adequately housed, fed and clothed.”

It is proposed that a statement of the principal objectives of the new Housing Strategy, a draft of which is set out below, will be introduced to underpin this broad statement in the form of a new Corporate Policy. As such it will sit alongside the existing Corporate Policies for Population, Energy and Law and Order (see Appendix II, page 1265 of the 2002 Policy & Resource Planning Report).

In this way, the concept of ‘adequate housing’ can be translated into a meaningful expression of government policy for housing.

The Principal Objectives of the Housing Strategy

The proposed objectives are:-

- **To ensure that all persons legally resident in Guernsey have access to housing accommodation to meet their reasonable needs.**
- **To meet housing needs in a sustainable manner in the long term interests of the community as a whole, making prudent use of all resources and recognising that investment in housing must be prioritised and compatible with strategic policies and the wider programme of public expenditure approved by the States.**
- **To ensure that there are measures in place to limit any growth in population through immigration in order to manage housing demand in accordance with the principles of sustainability.**
- **To provide the community with a range of housing options, acknowledging that while home ownership has historically been the preferred means of meeting housing needs, good quality, fairly priced housing may be provided across the housing market by other means and through a variety or mix of agencies – public, private and voluntary.**
- **To enable housing to be provided for those financially unable to enter the private housing market, either to purchase or rent, through a range of housing measures attuned to meeting their specific housing needs including social rented housing, partial ownership schemes etc.**
- **To enable the provision of supported accommodation for persons with special housing needs including accommodation for older persons, young people, persons with a learning disability, persons with a mental illness, ex-offenders etc.**
- **To maintain and improve the quality of housing in Guernsey across all sectors bearing in mind the impact of housing conditions on the health and well-being of the community.**

Having set out a series of strategic objectives, the next step is to propose an effective mechanism for achieving them. In the 2002 Policy & Resource Planning Report, section 3.9 (Paras 3.9.23 to 3.9.31) the Advisory and Finance Committee explained that it would work with the Housing Authority and other committees to develop a Corporate Housing Programme (CHP) to implement the Housing Strategy.

Core components of the CHP

In order to address the many issues identified in sections 3 and 4 of this report, the core components of a Corporate Housing Programme to meet the objectives of the Housing Strategy have been identified as follows:-

- **Action Area A**
To present the States with a comprehensive review of the fiscal policy options available to support the objectives of the Housing Strategy.
- **Action Area B**
To integrate land use planning policies which provide for sufficient housing to be created to meet strategic targets, with a range of measures to ensure that those housing opportunities are translated into development which meets the profile of local needs.
- **Action Area C**
To support the development of agencies to provide for the varied needs of the Intermediate Housing Market and to work with those agencies to ensure that there is sufficient provision of affordable social housing to meet the reasonable needs of that sector.
- **Action Area D**
To maintain and improve the quality of the States owned housing stock, and to provide high quality tenancy services to the occupiers of those dwellings in order to foster communities that are pleasant and safe to live in.
- **Action Area E**
To identify effective measures to improve the quality of private rented housing without reducing the size of the sector or raising rentals above the means of those on modest incomes and to do so in the context of promoting a wider programme of urban renewal.
- **Action Area F**
To establish an authoritative system for collating information about housing in order to monitor and review the effectiveness of the Corporate Housing Programme against strategic objectives.

The Structure of the Corporate Housing Programme

The purpose of the CHP is to provide a practical framework for coordinated action by States Committees, agencies such as Housing Associations, non-government organisations, voluntary groups and the private sector to fulfil the Housing Strategy.

As illustrated in the earlier sections of this report, housing issues are not simple. In the past, the States has been understandably wary of intervening in such a complex area as the housing market but if we are to do so it will require a different and more sophisticated approach than has been adopted in the past. The findings of the Housing Market Study demonstrate that acting on assumptions and avoiding a more searching analysis means that efforts can be misdirected.

The structure of the CHP needs to be flexible, inclusive of different agencies, adaptable over time and focused on outcomes (results) and not on the inputs and outputs as ends in themselves.

In order to meet these criteria, it is proposed that the structure of the CHP will be organised around the various parties that have a role in each Action Area. Each Action Area will have a Lead States Committee responsible for coordinating the work of the group to achieve agreed and prioritised targets. It is intended that the Housing Authority will maintain overall coordination between the work being done in each Action Area with the assistance of the Advisory and Finance Committee's Policy and Research Unit.

The Lead Committees have been identified as follows, although the designation of joint Lead Committees will require detailed discussion to ensure that responsibility can be effectively shared without a loss of efficiency.

Action Area A – Lead Committee – Advisory and Finance Committee

Action Area B – Joint Lead Committees – Housing Authority and IDC

Action Area C – Lead Committee – Housing Authority

Action Area D – Lead Committee – Housing Authority

**Action Area E – Lead Committees – Housing Authority and Cadastre
Committee**

Action Area F – Lead Committee – Advisory and Finance Committee.

Practicalities and Timing

If the States supports the proposals contained in this report, the immediate intention is that the Lead Committees will assemble the parties relevant to each policy area and consult with them to agree overall goals and priorities and a first action plan to achieve them.

The Housing Authority, in consultation with the Advisory and Finance Committee, will ensure that the action plans are compatible with each other and present them to the States as part of the 2003 Policy & Resource Planning Report.

It is intended that the action plans will then be reviewed and rolled forward annually reflecting the ongoing and dynamic nature of the CHP. Goals and priorities will also be reassessed over time as circumstances change.

The operational work of the Housing Authority will, of course, continue in parallel with the operation of the CHP and initiatives/projects already underway will be woven into the Programme.

Having said all this, however, it is necessary to make clear at the outset that whilst the Housing Strategy and CHP provide a route to translate government policy into more effective action, they are not a panacea for all the Island's housing problems. The States clearly does not have the means to bring about a perfect equilibrium between housing demand and housing supply. This is not an excuse offered in advance, but a statement of fact intended to dispel and unrealistic expectations which might otherwise arise.

6. RESOURCING THE CORPORATE HOUSING PROGRAMME

The proposed structure of the CHP is designed to make best use of public resources to tackle housing issues by formally involving those States Committees with a rôle to play, and creating Action Area Groups that are inclusive of a wide range of private and voluntary sector agencies. In this way, it is intended to harness the full range of resources available within the Island towards achieving the objectives of the Housing Strategy.

Nonetheless, there are major resource issues to be resolved if the CHP is to be successful. These include matters of finance, human resources, information technology, and the use of land and property.

The system of government in Guernsey is currently in a period of potential change as the States considers the streamlining of committees and the creation of a Policy Council to give stronger strategic and corporate leadership.

Although individual States departments would have broader mandates under the new system, some matters such as the CHP would continue to require the involvement of more than one committee.

In future, however, the Policy Council itself would be well-placed to take an overview and reinforce the process of corporate working through cross-cutting programmes such as the CHP.

One of the matters to be considered in detail and reported back through the 2003 Policy & Resource Planning Report is the way in which the resource needs of the CHP can be successfully managed.

Some inter-committee discussions have already taken place including discussions at senior staff level through the Resource Coordination Working Group but this topic requires further, detailed consideration.

Financial Resources

The work of the Housing Authority is currently funded through:-

- A general revenue budget
- The States Houses Fund
- The States Housing Association Fund
- The Housing Development and Loans Fund.

The Authority received total capital allocations in 2001 amounting to approximately £19 million for the period ending 31.12.04.

This funding recognised the very substantial workload being undertaken to facilitate housing development on States land, to fund the Guernsey Housing Association's initial development programme, and to embark on a long term programme for the renovation of States housing stock.

The task for the future will be to extend the flexibility of current budgetary arrangements so that funding can be provided for the many different work streams identified through the CHP Action Plans.

Longer term financial planning will be of key importance to the CHP enabling agreed initiatives to be followed through to a conclusion. If there is a stop/start approach to funding this will undermine any coherent programme of action.

As indicated in the Board of Industry's Construction Industry Report, long term planning of capital projects means that advantage can be taken of downturns in economic activity in order to build when costs are lower and labour more readily available.

For the future, the demand for funding through the CHP is likely to fall within 3 broad categories:-

- Research and investigatory work
- Housing development
- Subsidies, incentives and regulatory work.

Money allocated to the Programme under these headings may be used in a wide variety of contexts where this enables results to be achieved.

Human Resources

In the 2002 Policy & Resource Planning Report (section 6 – Para 6.1.15) the CSB welcomed *“the moves towards clearer strategic direction and identification of priorities by the States so that these considerations may be taken into account in the management of human resources”*.

Para 6.2.12 also stated, however, that

“The Advisory and Finance Committee and Civil Service Board share the view that the justification for the SNLP (Staff Numbers Limitation Policy) remains valid and that the overall size of the public sector should continue to be constrained in the interests of the Island’s economy as a whole. The context within which the SNLP operates is, however, an increasingly complex one. Acknowledging the difficult balance which has to be struck in delivering high quality public services without increasing the size and cost of the public sector, the Advisory and Finance Committee and the Civil Service Board believes that there are considerable benefits in establishing the New Projects Co-ordination Working Party (even if this proves to be an interim arrangement before any new “Policy Council” encompasses these issues).”*

(Now retitled as the Resource Coordination Working Group.)*

This crystallises the difficulty involved in meeting policy challenges and dealing with social issues of major concern without expanding the public sector in an unsustainable way.

‘Historically’, the main focus of the Housing Authority’s work has been operational: to manage States housing, to operate the Housing Control and Right to Work licensing systems, to run the States’ Home Loans scheme, and to manage the residential care homes at Maison Maritain and Longue Rue.

This range of work, which is demanding in itself, has already expanded over the past 2-3 years as a result of the buoyancy of the local economy, raised public expectations, and the requirement to provide public services that are both accessible and value for money. At the same time, the Authority has taken a demonstrably more active stance towards the strategic aspects of its mandate.

In 2001, for example, the Housing Authority obtained States’ approval to fund the establishment of Housing Associations. The workload involved in researching this initiative, in establishing a financial and legal framework for associations to operate, and enabling the development of new housing to begin has been a major undertaking in its own right.

The Housing Authority has received no significant increase in staffing to deal with its increased workload which has inevitably placed heavy demands on its current

establishment. This difficult situation has been further compounded by the high turnover of staff within some sections of the Authority, which has required managers to spend time on operational priorities rather than on taking initiatives forward.

The Civil Service Board has indicated its willingness to work with the Housing Authority and the Advisory and Finance Committee to determine the human resources needed to operate the CHP.

Inter-committee discussions will continue during the Spring to identify the specific, initial requirements of the Programme and ways in which human resources can be managed to achieve the necessary flexibility over time.

As a variety of skills and professional expertise will be needed by the Housing Authority and other committees to implement their action plans, the ability to employ people in one area of the CHP and then to reallocate posts to other priorities will be important. **It must be emphasised, however, that unless people with the necessary abilities are made available to supplement existing staff, the CHP will be unable to deliver results.**

Information Technology

Action Area F identifies the development of a fully corporate system of housing information as a key component of the CHP.

In the past, the main priority for States Committees has been to collect and analyse the information necessary to manage their individual areas of responsibility. The task for the future, and the CHP is a prime example of this, is to ensure that departmental systems also provide integrated information for strategic purposes.

Pages 103 and 104 of the Sustainable Guernsey Monitoring Report 2002 explain the scope of work to be addressed in this area.

Land and Property Resources

As explained earlier in this report, the Strategic Land Use Plan already includes a comprehensive set of housing policies that provide the agenda for the preparation of the Island Development Committee's Development Plans.

Further integration is required, however, to enable the land use planning system to respond to the requirements of the CHP.

The enactment of the new Island Planning Law is necessary to enable this closer integration to take place and with the support of the Advisory and Finance Committee, the IDC has recently received the agreement of the Law Officers to increase the priority for drafting the planning legislation to the highest banding.

The development of the Strategic Plan for States' property has been proceeding with urgency since the matter was last reported through the Policy & Resource Planning Report 2002. It is of particular importance to the prioritisation of capital projects and expenditure on fixed assets and, therefore, has a bearing on the organisation of programmes such as the renovation of States housing.

Within the scope of Action Area B one of the goals will be to ensure that housing, planning and the States' property strategy are considered in a coordinated rather than a piecemeal way.

7. CONCLUSIONS AND RECOMMENDATIONS

The Policy & Resource Planning Report 2002 (para 2.7.42) explained that:-

“The concept (of a Corporate Housing Programme) is a radical departure from the accustomed system whereby committees act separately to fulfil their individual mandates. The value of using housing as a pilot scheme is that it will enable the States to appraise the success of this way of working as government moves towards a more integrated approach across the board.”

The research recently undertaken into housing needs, relative poverty and the Guernsey housing market demonstrate that we may be wrong about, or have a limited understanding of important social issues, and the factors that contribute to them even when we believe the facts are readily evident.

The importance of making an explicit statement about the principal objectives of the Housing Strategy is to provide an agreed, shared agenda for the wide variety of agencies involved in the housing sector.

The CHP then provides a framework for addressing complex issues and setting out a coherent plan of action. Although it must be stressed that work ‘on the ground’ has not been held back pending the adoption of the proposed Corporate Policy for housing and the development of the CHP, clarity about what we are seeking to achieve and organising our efforts towards those ends can only make practical action more effective.

Whilst this policy letter has been submitted on behalf of the two Committees, a minority report is also appended which has been submitted by Deputy R C Berry OBE.

Recommendations

The Housing Authority and the Advisory and Finance Committee recommend the States to:

1. note the contents of this interim report and approve the development of the Corporate Housing Programme as outlined;
2. direct all States Committees to contribute to the development of the Programme where their assistance is required;
3. note that it is the intention of the Committees to consult with other States Committees and with the private sector and non-governmental bodies in developing the CHP;
4. note that the allocation of adequate resources, including human resources, is necessary to the successful operation of the CHP and that it is the intention of the committees to work with the Civil Service Board and other States Committees to fulfil this requirement.

Yours faithfully

L C Morgan
President
Advisory and Finance Committee

B M Flouquet
President
States Housing Authority

**The Operation of the Housing Market in
Guernsey :**

**A Report to the States of Guernsey Housing
Authority and the Advisory and Finance
Committee**

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15 November 2002

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Executive Summary

- Many of the concerns expressed in Guernsey about the housing market, such as rising house and rent prices and the consequent affordability of housing, are to be found elsewhere. International evidence shows that residential property in many parts of the world has undergone a similar upward revaluation.
- Nevertheless, local market house prices have risen substantially in the last 20 years, though they remain below the average real levels found, for example, in Jersey and Greater London. Private rents have risen even faster than house prices over the last 10 years. In contrast States' rents have increased much less and are now under half the level of equivalent private sector rented property.
- Owner occupation is the dominant form of housing tenure. The 2001 census found that 72% of households are owner occupiers, 19% are in private rental and 9% are States' tenants. The owner occupation rate is one of the highest in Europe and raises questions about the level to which it can reasonably rise.
- Although it is commonly believed that first time buyer property has become much more expensive, average house prices have risen in a similar way in all price brackets since 1981, except that the top 25% (quartile) have become relatively cheaper. There is no evidence that prices have been especially squeezed at the lower end, the bottom 25% (quartile). The problem is one of rising prices generally.
- Although in historic terms current average prices, both nominal and real, are at a high, as measured by the standard price/earnings ratio, the fall in nominal interest rates has meant that on average property is still affordable. Affordability, as measured by the significance of mortgage repayments in relation to income, is below its long term average. Concerns about average affordability are misplaced.
- There may be some slowing of house price growth in 2002, compared to 2001, though the extent of this is unclear. It should also be remembered that there is a house price cycle in Guernsey, as in other areas. Average real prices fell by 28% between 1989-1994 and the prospect of price falls should not be discounted.
- The causes of the rising house and private rent prices are a combination of macro and micro economic factors, though the former are almost certainly the more important quantitatively. Interest rates, a key macroeconomic driver of demand generally, are set in the UK for UK conditions. As inflation has been higher in Guernsey than in the UK for many years, Guernsey's real interest rates have been correspondingly lower than in the UK. Monetary conditions are looser on Guernsey. This effect is added to by the existence of mortgage interest tax relief, which no longer exists in the UK. The real post-tax cost of mortgage finance is now just 0.5% in Guernsey (compared to 3.8% in the UK).

- The combination of the strong growth in real consumer incomes and the relative absence of unemployment over the last 20 years, arising from a strong economy, has also lead commercial lenders on the island to lower estimates of default risk and to finance ever higher mortgages, in terms of income multiple and the percentage taken of net disposable income. This has compounded the cheap money effect. The cheap money effect raises wider questions about personal sector indebtedness on the island.
- Some microeconomic housing policies have exacerbated the market situation. Up to 55% of residentially qualified households receive a housing subsidy of one form or another from the States. These subsidies cost nearly £25m per annum, split roughly equally between States' tenants and owner occupiers.
- A number of States' housing policies are presently under review and this provides the opportunity for a more co-ordinated and integrated strategic approach to housing issues. This needs to cover all parts of the housing sector and target both the demand and supply sides of each of the parts of the sector. There has been too little attempt to influence demand, or recognise the impact of policy on demand, with the emphasis of strategy almost wholly on the supply side.
- The rationale for a number of subsidy and tax policies are unclear and/or confused. For example, the case for a market efficiency based policy encouraging owner occupation is weak and unconvincing, whilst it is unclear why the rent rebate scheme applies only to States' tenants.
- A considerable number of options for change are examined . These range from adjusting macroeconomic priorities so as to lower inflation, which would require change to macroeconomic management and fiscal policy, through to detailed tax and subsidy changes. Many of these are controversial, if economically desirable to achieve housing policy objectives.
- A package of measures probably needs to be developed to address the immediate and longer term housing problems. Such a package is likely to have a number of elements, each of which will impact over different time frames. It is perhaps especially important in housing matters, in considering options for change, that a long term perspective is taken. This will require proper economic and financial analysis and appraisal of the options.

1. Introduction

1. This report has been commissioned jointly by the Housing Authority and the Advisory and Finance Committee of the States of Guernsey¹. It is a broad based review of “*the operation of the Guernsey local housing market*”. Annex 1 gives the full terms of reference for the study. The study has been commissioned for two main reasons. First, it is widely thought that a number of problems in the housing sector have become more severe in the last few years, particularly the rise in house prices and the consequent problems faced by first time buyers². Second, the study forms part of a wider re-examination of the housing sector and housing policy being undertaken by the Housing Authority. Such a reassessment can be helped by an outside and independent perspective.
2. This report also comes after a number of other important studies have recently taken place. Opinion Research Services undertook a survey to help the States determine future short term housing requirements³. The aim was to identify housing “needs” over the next few years. The Board of Industry has published a general report into the construction industry in Guernsey, examining, in particular, Guernsey’s high build costs⁴. Finally, the Townsend Centre for International Poverty Research has examined poverty on the island, in which housing was found to be a key element⁵. The present report should offer a complementary perspective to these other studies.
3. This report has wide terms of reference and covers a large number of issues. Housing policy is an important and controversial area as housing forms a major part of household budgets⁶, is central to an individual’s daily domestic circumstances and experience (and standard of living), and almost all housing

¹ For details of the report’s author and LECG (Law and Economics Consulting Group) see the web-site www.lecg.com.

² The term housing sector, rather than housing market, is used here, though the latter is used in the terms of reference, as the term “market” has a very specialised use in market and competition analysis, implying a discrete set of buyers and sellers. It is possible that the housing sector in Guernsey is comprised of a number of separate housing markets, which, though linked, should be treated as separate for some analytical purposes. Local market (owner occupied) housing, for example, might be a separate market from open market housing and also from private rented accommodation. Identifying the existence, or otherwise, of these discrete economic markets is an empirical task which is not part of this study.

³ Opinion Research Services, *Guernsey Housing Needs Study 2001*. The survey was undertaken in late 2000.

⁴ Knowles Management and the Economic and Strategic Adviser, *Guernsey: Constructing the Future*, States of Guernsey Board of Industry, April 2002.

⁵ University of Bristol Townsend Centre for International Poverty Research, *The Survey of Guernsey Living Standards, Reports on Phase 1 and 2*, 2001 and 2002.

⁶ Taking nearly 22% of average Guernsey household expenditure. This is its weighting in the construction of the retail price index.

development, on a small island, involves trade-offs for policy makers between social, financial, economic, environmental and other objectives. Furthermore, any change to the status quo will normally involve both winners and losers. This makes achieving change politically difficult.

4. It is important to be clear what this report is intended to address. It is not intended to address the issue of housing rights and their scope, though a complex system of rights to occupy housing, as distinct from owning housing, exists in Guernsey. The main features of this, and the associated housing licensing system, are set out later. The rights and licensing systems, by discouraging permanent immigration, are the principal means of controlling population growth on the island. A full discussion of this would extend the report considerably, taking it beyond purely matters of economics ⁷. Nor does the report examine the structural separation of privately owned housing into its local and open market parts. This separation, linked to the housing rights issue, is taken as a given. However, the report does examine States' housing policies in most other regards and tries to look at them from a long term perspective. Such a perspective is needed because the effects of housing policies take some time to work through. The process of market adjustment, such as the build of new houses or the conversion of old houses and buildings to alternate use, and whether triggered by private or public demand or in response to a public policy shift, can take a number of years ⁸. Economists say that the market adjusts, but only with a lag. Additionally it is vital to identify long term trends and changes if public policy is not to be driven by short term issues. In considering options for change, a long term perspective is essential.
5. The report is therefore largely backward looking. It examines local housing sector trends over the last two decades ⁹. It does not attempt to forecast sector developments, such as future house price changes, be they rises or falls. The local housing sector is taken to cover; privately owned local market housing, private local market rented accommodation and States' (public) housing.
6. A final point of introduction is that, where comparisons with other countries are made, Guernsey's housing experience is contrasted mainly with that of the UK and of Jersey. These countries are the most appropriate comparators for a number of reasons, including; they share a common currency, their economies are closely linked, their housing finance systems are similar, many companies, including

⁷ It would need to consider, for example, demographic, social, legal and ethical questions as well as the practical consequences of any change in housing rights.

⁸ In technical terms, the supply of housing is said to be relatively (price) inelastic. This means that it does not respond quickly to changes in prices (or other factors). In the short term the housing stock and its uses are fixed. The lags in changing the size, composition and use of the housing stock arise from the time needed for any planning consent, contract negotiations, the actual process of build or conversion, and, on the island, limited construction industry capacity. Builders and developers also want to ensure that market and/or policy changes are permanent and not temporary, so even in the absence of other factors, response would not be immediate. On the consumer side expectations can sometimes be slow to adjust, partly because housing sale or purchase is an infrequent event for an individual household.

⁹ As it is only since 1981 that data on Guernsey house prices has been collected.

mortgage lenders and house builders, operate in all three locations and nominal interest rates are commonly set and near identical in all three areas ¹⁰. This is likely to remain so for some years. In contrast, the creation of the euro-zone with a single currency and base interest rate is changing housing dynamics in Western Europe. As always, the report has benefited from the helpful comments made by various people ¹¹, though the views in it are entirely those of its author.

7. The report has six further sections;
 - background
 - the housing sector in detail
 - States' housing policies
 - economic analysis
 - questions set in the terms of reference
 - summary and conclusions

8. The next three sections are largely factual, being descriptions of Guernsey's housing sector and past and current policies. These sections should be uncontroversial. The following two sections set out the economics of the housing market and try to answer the particular questions posed in the research brief, drawing in large part on the material already presented. The final section summarises and draws some conclusions. A number of specialised and/or technical issues are dealt with in annexes.

¹⁰ By the Bank of England's Monetary Policy Committee (MPC). Interest rates are clearly central to private sector house prices, and changes in house prices, as they determine the cost of borrowing and finance.

¹¹ In particular the States' officials; Dr. Stephen Langford, Andrew Le Lievre, Mike Gathercole and Andrew Birnie. I am also grateful to the many other people who have contributed to my understanding of Guernsey's housing sector, through meetings and the provision of data. These individuals are listed at Annex 2.

2. Background

9. This section gives some initial background about the development of the housing sector in Guernsey. It contrasts it with developments elsewhere.
10. The three main housing sector changes in Guernsey over the last two decades have been; the continued rise in both the population and numbers of households, changes in the housing tenure of those households (with owner occupation becoming ever more dominant) and large rises in house prices, in both the local and open market segments.

(i) Rises in the population and numbers of households

11. The general changes in the socio-economic composition of the Guernsey population are covered elsewhere¹². The key features for housing provision have been the increase in the total population with an even larger increase in the numbers of households. This means that the number of persons per household has fallen. This is due to the rise in single person households, both young and old; the increase in one parent families and generally smaller family groups.
12. Table 1 below gives the basic changes since 1981. It can be seen that the total population has grown by 12%, but the number of private households has increased by over 21%. In consequence, for private households as a whole, the number of persons per household has fallen from 2.76 to 2.51 in the period, a fall of over 9%. The rise has been caused by more single person households (OAP households, non-OAP households and single parents) and less households with children under 18 and less households with children over 18. The latter two changes can be caused by declining birth rates and children leaving home earlier than was once the case¹³.
13. All of these changes raise the demand for housing. However, since 1986 the growth in the number of private dwellings available has been greater than the rise in the number of private households. This suggests that any housing problem in the private sector will not have worsened in the period and may even have marginally improved. However, it should be noted that the rise in the number of private dwellings is only of the order of 1% a year. In the short term the housing stock is fixed and increases in the stock, primarily through new build, are small and take time to come through.

¹² See, for example, Advisory and Finance Committee, *2001 Economics and Statistics Review*, sections 4-6, *2002 Sustainable Guernsey; monitoring Social, Economic and Environmental Trends*, and the 2001 Census report.

¹³ See Table 4.8 of the 2001 Census report.

Table 1 : Population, households and dwellings, 1981-2001.

<i>Year</i>	<i>Population</i>	<i>Numbers of Households (total)</i>	<i>Numbers of Private Households</i>	<i>Numbers of Dwellings (total)</i>	<i>Numbers of Private Dwellings</i>
1981	53313	n/a	18707	17429	n/a
1986	55482	19815	19660	17674	17515
1991	58867	21647	21215	18992	18679
1996	58681	22216	21862	20455	20173
2001	59807	23068	22664	22963	20721
% change, 1981-2001	12.2	n/a	21.2	31.8	n/a
% change, 1986-2001	7.8	16.4	15.3	29.9	18.3

Notes

1. Sourced from various Census reports.
2. Dwellings are buildings that contain at least one household.
3. Total households include both private and communal households. Private households are those living in owner occupied and rented property. Communal households are individuals and groups living in accommodation such as hospitals, residential homes, nursing homes, hotels and guest houses and prison. They share facilities and do not therefore form separate households.
4. For more complete definitions see *Guernsey Census 1996*, pp.66-69.

(ii) Changes in the household tenure of private households

14. Household tenure patterns have also changed. The main change has been the continued rise in the percentage of private households which are in owner-occupation, with accompanying small falls in the percentages of households in States' housing and private rented accommodation. The table below shows this. Note that although the percentage of households in States' housing and private rented accommodation has fallen, the absolute numbers of households in those tenures has risen since 1981. This is because there are more households in total.

Table 2: Numbers and percentages of private households in different types of tenure, 1981-2001.

<i>Tenure type</i>	<i>1981</i>	<i>1986</i>	<i>1991</i>	<i>1996</i>	<i>2001</i>
Owner-occupation	12280 (65.6)	13606 (69.2)	14516 (68.4)	15205 (69.5)	16275 (71.8)
States' housing	1972 (10.5)	1982 (10.1)	2208 (10.4)	2141 (9.8)	2141 (9.4)
Private rented	3932 (21.0)	3683 (18.7)	4491 (21.1)	4516 (20.6)	4248 (18.7)
Held by virtue of employment	523 (2.8)	389 (2.0)	n/a	n/a	n/a
Total	18707 (100)	19660 (100)	21215 (100)	21862 (100)	22664 (100)

Notes

1. Data from Census reports.
2. This table covers the total number of Guernsey (and Herm and Jethou) households, and so includes both open and local market households.

15. Owner occupation has increased from 65.6% in 1981 to 71.8% in 2001, with private renting and States' renting both falling a little to 18.7% and 9.4% respectively. In the UK in 2001 there was a similar level of owner occupation, at 70%, but a much lower level of private renting at 10% and a corresponding higher level of social housing at 20% (either from a Local Authority or through a registered social landlord, typically a Housing Association). In Jersey, owner occupation was very much lower, being just 50% in 2001. States' rental there is 14% and private renting is 36%. This is for the total population ¹⁴.

16. The long term rise in owner occupation is also evident across Europe, where the average EU level of owner occupation is now just over 60%, though countries still differ a good deal in how the remainder of the population are housed ¹⁵. At one extreme, such as Spain, there is little social renting, whilst at the other, such as the Netherlands, it is much more important. Owner occupation rates also vary

¹⁴ Because Jersey has a high proportion of non residentially qualified people on the island, who cannot be owner occupiers, the figures change somewhat if only the residentially qualified are considered. Even just for them the amount of owner occupation is very much less than in Guernsey, being just 57%.

¹⁵ See, *Financial Times Survey*, Investing in Residential Property, 12th June 2002, and LECG, *Housing in Jersey : A Report to the Housing Committee of the States of Jersey*, 2000, Annex 3: Comparative housing experience in the EU.

considerably about the average. It is very high in Spain, but low in Germany, where private renting is more common.

(iii) Rising house prices

17. Tables 3 - 6 below show nominal and real house prices in Guernsey ¹⁶ and three comparator areas: the UK, Greater London and Jersey, over the last 20 years. In all four areas the average nominal house price has risen considerably over the period. By 2001 Guernsey had an average house price of over £225,00. This was higher than the UK or Greater London, but lower than in Jersey, whose average house prices were, respectively, £116,000, £195,000 and £270,000.
18. However, inflation has not been the same in these locations in the period so the level of real house prices also needs to be examined. Having deflated nominal house prices by the general rise in prices in each area (using the local retail price index, the RPI), the real price of the average house in Guernsey remains higher than the UK average but is now below both that of Greater London and Jersey (respectively £81,000, £52,000, £87,000 and £99,000). This change in rankings reflects the fact that general inflation in Guernsey has been above that in the UK and Greater London in the last 20 years (and continues to be above that on the mainland). Nevertheless, the real price of a house in Guernsey, measured in 1981 prices, has risen from about £28,000 in 1981 to almost triple at £81,000 in 2001.
19. It is the rate of growth of real prices in Guernsey, particularly since 1995, that is of most concern. As can be seen from the tables, in index terms, Guernsey's real house prices have risen from 100 in 1985 to 283 in 2001, a much faster growth than in all other three areas. The UK, Greater London and Jersey have risen from indexed values of 100 in 1985 to, respectively, 182, 219 and 218. If the trend rate of real price growth of recent years, especially since 1995, coupled with higher general inflation, were to continue for long Guernsey would soon have the highest nominal and real house prices out of all the four areas ¹⁷.
20. It is useful to graph real house prices for the four areas as this illustrates clearly that real prices are cyclical, and go up and down in a significant way. This is shown in Graph 1. The price cycles are very similar, and linked to the general economic cycle ¹⁸. As might be expected, the peaks and troughs of the cycles are also quite close in time. The swings in real prices over the cycle can be

¹⁶ For the local market only. As open market properties have historically been 2-3 times the price of local market properties, attention is on the local market. Throughout this report, unless otherwise stated, references to Guernsey house prices refer to the local market only. The term "house prices" covers all types of property- houses, bungalows, flats and so on.

¹⁷ Though over the 20 year period 1981-2001 the growth in real prices in Guernsey and Greater London is more similar, rising from an index value of 100 to 288 and 270 respectively.

¹⁸ This is for fairly obvious reasons. When economies slow and/or enter recession, employment may fall, incomes fall, income prospects deteriorate and confidence fall. These will all affect house prices adversely.

substantial. The fall in Guernsey real house prices from peak to trough, which was from 1989-1994, was 28%, whilst the fall in UK prices, from 1989-1995, was 25%. In London the fall was 29%, from 1988-1993. Whilst in Jersey the fall was less marked at 6% from 1992-1995¹⁹. As such cyclical real price falls occurred in the last economic downturn, one might be wary of similar falls in the future if prices get too overheated. Longer term UK data shows a similar cyclical pattern before 1981.

¹⁹ The comparatively small fall in real prices in Jersey is largely explained by the fact that house price controls had been in place in Jersey for over 20 years, from 1970 to 1991. These price controls had suppressed price increases. The removal of the price controls meant that catch up in prices took place over the following few years and real prices did not therefore fall as far as they otherwise would have done. House price and rent controls have been abandoned in Jersey as they are now understood to be counter-productive. See LECG, *op cit.*, especially pp.53-54.

Table 3 : Guernsey house prices, 1981-2001.

<i>Year</i>	<i>Nominal Price, £</i>	<i>RPI (1981=100)</i>	<i>Real Price, £</i>	<i>Real Price Index (1985 real price = 100)</i>
1981	28135	100	28135	99
1982	28601	107	26644	93
1983	28400	114	24933	87
1984	34125	120	28327	99
1985	36610	128	28574	100
1986	43384	133	32627	114
1987	57330	139	41226	144
1988	68090	149	45775	160
1989	101577	161	63177	221
1990	99731	176	56635	198
1991	99539	190	52260	182
1992	96058	202	47583	166
1993	95761	210	45669	160
1994	97362	215	45186	158
1995	102898	223	46149	162
1996	115725	230	50315	176
1997	141093	239	59135	207
1998	152890	249	61425	215
1999	161387	258	62561	219
2000	190854	269	70892	248
2001	226386	280	80988	283

Notes

1. House price and RPI data from Economics and Statistics Unit (ESU).
2. For 1981-1988 (inclusive) house price data were calculated by ESU for quarter 1 only in each year. Thereafter data has been collected and calculated for all 4 quarters. The figure used above is an average of each year's 4 quarters. The Q4 2001 average house price was higher than the full year average, being £245,533.

Table 4 : UK house prices, 1981-2001.

<i>Year</i>	<i>Nominal Price, £</i>	<i>RPI (1981=100)</i>	<i>Real Price, £</i>	<i>Real Price Index (1985 real price = 100)</i>
1981	25600	100	25600	90
1982	26200	105	24858	87
1983	29400	111	26490	93
1984	32000	116	27565	97
1985	34900	123	28442	100
1986	39800	127	31277	110
1987	46400	132	35163	124
1988	58200	141	41297	145
1989	70400	152	46383	163
1990	69500	166	41894	147
1991	68600	173	39570	139
1992	66000	178	37106	130
1993	64300	181	35476	125
1994	66200	187	35495	125
1995	66600	192	34602	122
1996	69000	197	34975	123
1997	75500	204	36940	130
1998	83700	210	39836	140
1999	93300	214	43620	153
2000	106700	220	48464	170
2001	115700	224	51651	182

Notes

1. House price data from the Council of Mortgage Lenders. RPI data from Office of National Statistics.
2. There are numerous house price sources available in the UK. The main ones come from the Halifax, the Nationwide, the Land Registry and the Council of Mortgage Lenders/ Department of Transport, Local Government and the Regions (CML/DTLR). The difference between them is relatively small and the choice of source data should not significantly change the comparisons made in this report.

Table 5 : Greater London house prices, 1981-2001.

<i>Year</i>	<i>Nominal Price, £</i>	<i>RPI (1981=100)</i>	<i>Real Price, £</i>	<i>Real Price Index (1985 real price = 100)</i>
1981	32100	100	32100	81
1982	32600	105	30930	78
1983	36800	111	33158	84
1984	42700	116	36782	93
1985	48600	123	39607	100
1986	59200	127	46523	117
1987	73900	132	56003	141
1988	91000	141	64571	163
1989	98700	152	65028	164
1990	96900	166	58410	147
1991	93100	173	53703	136
1992	83600	178	47001	119
1993	82200	181	45352	115
1994	88300	187	47344	120
1995	89100	192	46292	117
1996	91600	197	46430	117
1997	105300	204	51520	130
1998	120800	210	57494	145
1999	149100	214	69708	176
2000	175900	220	79895	202
2001	194500	224	86830	219

Notes

1. House price data from the Council of Mortgage Lenders. RPI data from the Office of National Statistics.
2. Greater London prices have been deflated using the UK RPI, as no separate inflation index exists for the area. As inflation seems likely to have been higher in the capital, compared to the UK as a whole, the time series calculated may overstate the real price rise.

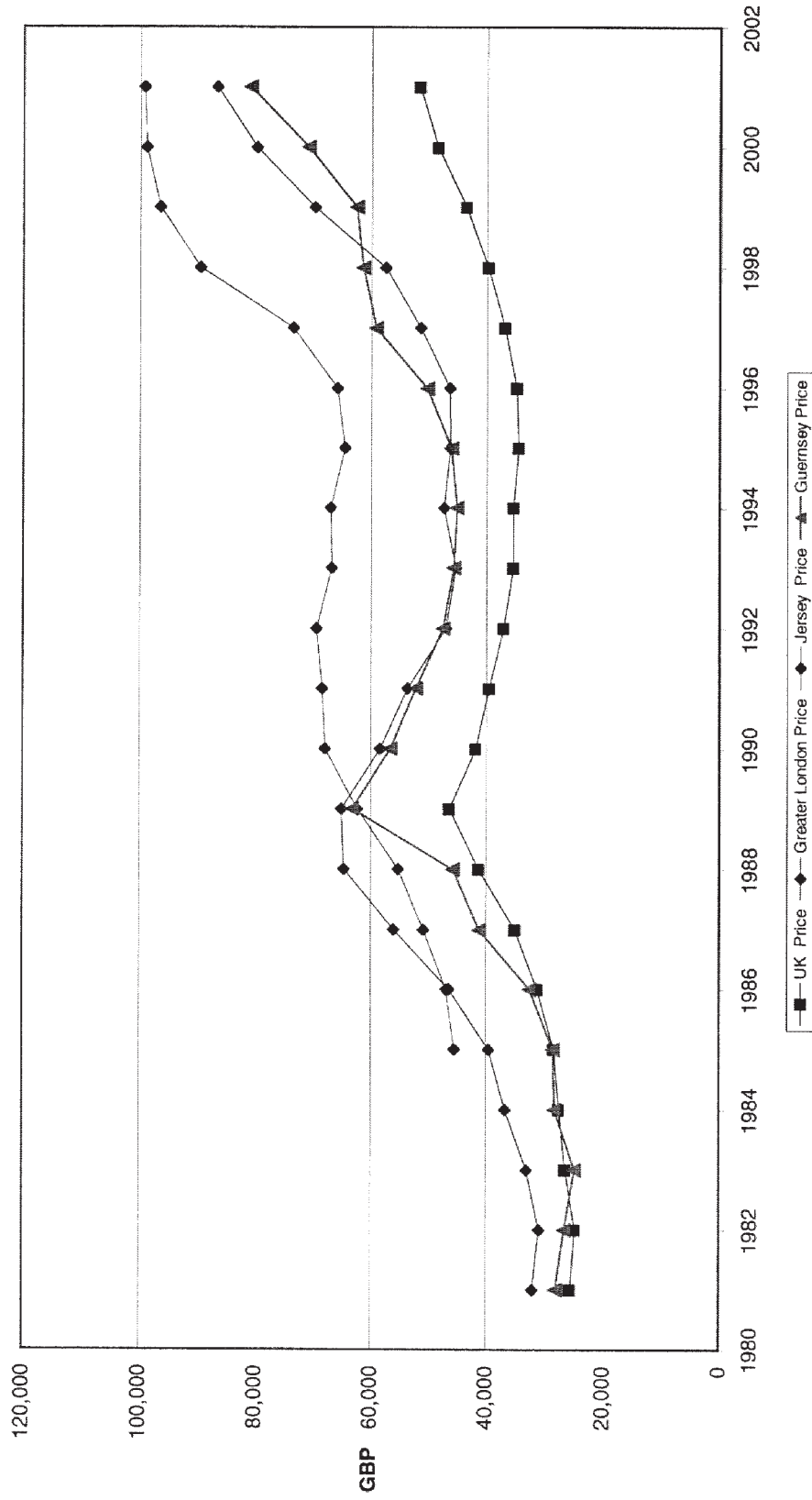
Table 6 : Jersey house prices, 1981-2001.

<i>Year</i>	<i>Nominal Price, £</i>	<i>RPI (1981=100)</i>	<i>Real Price, £</i>	<i>Real Price Index (1985 real price = 100)</i>
1981	n/a	100	n/a	n/a
1982	n/a	105	n/a	n/a
1983	n/a	112	n/a	n/a
1984	n/a	118	n/a	n/a
1985	57000	125	45553	100
1986	61000	130	46973	103
1987	69000	136	50843	112
1988	81000	147	55243	121
1989	99000	159	62344	137
1990	118000	174	67925	149
1991	128000	187	68413	150
1992	137000	197	69406	152
1993	136000	204	66763	147
1994	140000	209	66920	147
1995	140000	217	64532	142
1996	148000	225	65849	145
1997	171000	233	73509	161
1998	217000	242	89696	197
1999	244000	253	96606	212
2000	259000	262	98967	217
2001	270000	272	99265	218

Notes

1. House price and RPI data from Statistics Unit, Policy and Resources, States of Jersey.
2. No house price data were collected before 1985.
3. The LECG Report, *Housing in Jersey : A Report to the Housing Committee of the States of Jersey, October 2000*, cast doubt on the validity of the average house price calculation in Jersey. For 2002, the Statistics Unit is revising the data collection and calculation in line with the LECG recommendations. This is requiring the construction of a new index which is more representative and a revised historical data series. This is expected to be published in 2002.

**Graph 1 Real House Prices in the UK, Greater London and the Channel Islands
(in 1981 Prices)**



21. At the time of writing, in November 2002, house price inflation has risen significantly in the UK, including Greater London, since 2001, when average prices rose by around 8%. At the start of the year most analysts were expecting price rises of around 5-6% this year. However, UK house prices are rising very much faster than that, with two of the main mortgage providers now forecasting that the yearly rate of price increase will be just under 25%²⁰. Other data sources confirm this²¹. Mortgage borrowing has reached successive record levels in recent months and the extremely high level of mortgage approvals points to demand remaining strong for the near future. The prospect of interest rate increases has also receded in recent months with the publication of less optimistic economic indicators. Indeed, there is a possibility that the next move in UK interest rates will be down, following US rate cuts by the Federal Reserve.
22. Such changes have led most commentators in the UK to argue that a house price boom is now underway, which is not sustainable and which carries with it the risk of a major price correction, similar to that occurring in the early 1990s (with its attendant consequences of widespread negative equity and house repossessions). The Governor of the Bank of England has argued that the rate of price growth is unsustainable²², as have members of the Monetary Policy Committee (MPC)²³. In a similar vein, the Economist magazine and a number of economic and property analysts have argued that house buyers are overstretching and that house price falls could be on their way²⁴. This has led even the mortgage lenders to call for a rise in interest rates to cool the UK housing market²⁵. The concern is that a house price asset bubble has formed, with current values being above fundamental values. Many, including the MPC, are searching for signs that the market has peaked.
23. In Guernsey experience this year is rather less clear cut as official data is only published quarterly. In 2001 prices were rising by nearly 20%, but the official measure of average house prices showed almost no change in Q1 2002 compared with the 2001 average. Indeed, prices actually fell in Q1 2002 compared to the

²⁰ The mortgage lenders Nationwide and Halifax each produce and publish a monthly house price index, which is generally well regarded. See, *Financial Times*, House prices surpass last peak in real terms, 7 November 2002, p.2; *Financial Times*, House prices see highest annual rise since 1980s boom, 9/10 November 2002, p.1; *Financial Times*, Alarm bells ringing as house prices hot up, 9/10 November 2002, p.3.

²¹ See Annex on the Guernsey House Price Index for details of the many other UK data sources.

²² *Financial Times*, Bank warns homebuyers growth not sustainable, 14th June 2002, p.1. It is normally thought that house price rises are unsustainable if they exceed substantially the nominal growth in income and so cause the ratio of price to earnings to move out of line with the long run historical average.

²³ *Financial Times*, Landlords face rental burn-out, FT Money, 8th/9th June 2002, p.1.

²⁴ *The Economist*, Here we go again, 15th June 2002, p.29.

²⁵ *Financial Times*, Mortgage lenders in rare call for interest rate rise, 25th June 2002, p.2.

previous quarter, Q4 2001²⁶. However, the average price in Q2 2002 rose substantially²⁷. Taking the first two quarters together, and along with unofficial statistics, this suggests that nominal house price growth in Guernsey continues at over 10% per annum²⁸. The official data also suggests that prices at the cheaper end of the market are rising faster than this.

24. As well as aggregate data, ESU have also provided LECG with price data from 1981 for Guernsey's local house market broken down by price quartiles. Examining this casts light on the pattern of price movement within the total over the last 20 years, and particularly between the cheaper and the more expensive properties (i.e. the bottom and top quartiles). Table 5 tabulates the results. This shows that over the 1981-2001 period the top quartile of house prices has grown more slowly than the average, with the other three quartiles rising more than average- though not significantly so. This suggests that house prices have become a little more compressed in the period between cheaper and more expensive property. The former have become more expensive relative to the latter. Though both have risen in real terms the former have risen proportionately more. The same feature is evident to a smaller degree if we examine quartile movements more recently, in 1995-2001. However, it is noticeable that, contrary to popular concern, there is little evidence that cheaper properties, which make up the bottom quartile and which are normally first time buyer properties, have become more expensive relative to others over the longer term. The Guernsey problem has been one of generally high and rising prices in all bar the highest price bracket.

²⁶ According to ESU, Q4 2001 average house prices were over £245,000, with Q1 2002 being almost £226,500. This compares with the full year 2001 average of £226,400- see Table 3.

²⁷ From £226,500 in Q1 to £255,000 in Q2.

²⁸ A private sector company, Unusualities of Guernsey, provides data on house prices on a monthly basis to the finance sector. This uses the same source as ESU calculations, namely conveyancing records deposited at the Greffe. Unusualities first half year report at the end of June 2002 suggests that house prices rose in the first half of 2002 by over 10% compared to the first half of 2001. It also records higher average price levels than the official statistics. This is largely due to methodological differences.

Table 7: Guernsey nominal house price indices by quartile, 2001.

<i>Quartile</i>	<i>25%</i>	<i>50%</i>	<i>75%</i>	<i>top price</i>
If 1981 = 100, the average house price index in 2001 = 872	899	920	937	776
If 1995 = 100, the average house price index in 2001 = 254	250	271	254	176

Notes

1. Data from ESU.

25. It might be objected that comparing Guernsey prices just with locations in the near sterling area is too narrow and misleading. However, wider international comparisons show a similar pattern of rising house prices in recent years, particularly in Europe, America and parts of Asia. Indeed some commentators suggest that rising housing prices and wealth have been a major factor in preventing economic slowdown on a global scale ²⁹. However, the recent fall in global stock market values, since their year 2000 peak, has raised fears that global property values are also vulnerable ³⁰.
26. Within Europe, there is no statistically standardised data source for house prices, though the trade body, the European Mortgage Federation, brings together national data, normally from the national statistical bodies of each country. Nor is there an authoritative standardised world housing data bank. The comparative studies that have been done have tended to identify particular countries and compare national data ³¹. However, this year the Economist magazine started to compile a world data base of house prices from 1980 ³². This covers 13 developed countries and a major city in each of those countries and the latter is, perhaps, more relevant for Guernsey given its population and geographic size,

²⁹ Such as E Crooks, P Despeignes, Hot property, *Financial Times*, 22nd/23rd June 2002, p.12.

³⁰ S Brittan, The Paradox of Thrift returns, *Financial Times*, 18th July 2002, p.17.

³¹ Such as J Perry, International Comparisons, in, S Wilcox (ed.), *Housing Finance Review 2001/2002*, Joseph Rowntree Foundation, 2001.

³² The Economist, Special report : House prices, 30th March 2002. See also; The Economist, Global house prices, 31st August 2002, pp.63-64, and www.economist.com.

which makes it more akin to a provincial town in the UK or a district in a major city.

27. What emerges is that, although some countries such as Japan and Germany, have experienced real price falls over the period, most countries have seen rising real prices, particularly over the last few years. At city level, prices tend to be more volatile, partly because the supply of land on which to build is more limited (like Guernsey). The largest real price increases in 2002 were in Madrid (15%) and Sydney (13%). This followed several previous years of double digit real gains in such cities as London, Dublin, Amsterdam, Stockholm and Sydney, see Table 8 below. In 2002, price increases have accelerated in many countries, particularly the UK, Spain and Australia.

Table 8 : Nominal and real house price changes in selected cities, 1980-2001.

<i>City</i>	<i>% change 1980-2001, nominal</i>	<i>% change 1980-2001, real</i>	<i>% change 2001, nominal</i>	<i>% change 2001, real</i>
Dublin	767	207	14.6	9.2
Madrid	819	149	19.3	15.2
New York	356	112	11.5	8.4
London	427	103	11.2	9.3
Sydney	419	83	18.1	13.1
Brussels	210	58	6.7	4.1
Paris	250	58	6.7	4.1
Stockholm	312	54	10.2	7.5
Tokyo	72	30	-5.8	-5.3
Amsterdam	103	20	6.1	1.5
Frankfurt	69	0	1.5	-1.0
Toronto	80	-9	2.4	-0.1
Milan	n/a	n/a	9.8	6.8

Notes

1. Source is *The Economist*, Special report : House prices, 30th March 2002, p.78.
2. 2001 data for Brussels and Paris are for first 3 quarters only.
3. Toronto results are for 1981-2001.

28. Guernsey's nominal and real growth in house prices would put it very near the top of the table above, but it is by no means alone in having such rising house prices over the last 20 years. This suggests that Guernsey's experience with rising house prices is not due to special Guernsey factors but that its house price

inflation has been driven by more general, and widespread, economic factors, to be found in all countries, such as household formation rates, the rate of economic and income growth and the level of interest rates. What might account for the differences in experience might then be the potency of these factors in each country and city.

29. A final point of background is the impact of Guernsey's position as a small island. This has a number of economic consequences. There is less price variation across the island than occurs in a larger geographic area. Although there are more, and less, desirable areas on the island, there is no low housing cost area. All points are within 10 miles of each other. In a larger geographic area, houses can often cost less as the distance from places of commerce and employment increases ³³. This is not the case on Guernsey. The island forms just one geographic market. The island's small economic size also means that a fully competitive industrial structure may not be possible. This is particularly important on the building and construction side. Where markets are small, so supporting only a limited number of firms, competitive rivalry may not be as intense as in larger markets ³⁴. This was a strong theme in the recent Board of Industry report ³⁵.

³³ So households might trade off increased travelling time and costs against lower accommodation costs, leading to a class of "commuting" workers. Commuters, for example, frequently travel 20-50 miles to work in central London. The much larger price dispersion in the UK, between say Greater London and the North of England, suggests distinct regional housing markets exist there.

³⁴ Although there are many towns in the UK which are geographically distant from others and so might be thought of as small "local" markets akin to Guernsey, the fact that there is some overlap, and possibility of overlap, between them means that competitive threats from outside can be strong. Technically, there may be a chain of geographic overlap which means that genuinely local, and isolated, business markets are unusual. Whether a market is local, regional or national in scope will depend on the particular product or service concerned.

³⁵ Knowles Management and the Economic and Strategic Adviser, *op cit*.

3. The Housing Sector in Detail

30. This section examines Guernsey's local housing sector in a little more depth and covers, in turn;

- Housing sector structure and housing rights
- Owner occupation
- Private rental
- States' rental

(i) Housing sector structure and housing rights

31. The structure of the housing sector in Guernsey, and the associated instruments of control, are complex. Many of the current elements have their origins in the post-war situation and the emergency provisions which first came into effect in 1948³⁶. The key elements now are the separation of housing into its "open" and "local" market parts and restrictions on who has the right to occupy, but not to own, such housing³⁷. Ownership is unrestricted, but residence is not. The continuing aim of these arrangements is to reserve the availability of most housing to Guernsey locals, i.e. those born on the island and others who have gained residential qualification.
32. Open market property is free of control. The concept of "open market" dwellings was created in 1957. Properties in this category are listed on a Housing Register, first created in 1969. This is split into four parts. The total number of open market properties is now just over 1600, the bulk of them being Part A private dwellings. No additional open market development, i.e. additions of new property to the register, is permitted. Anyone who is an EC resident can occupy open market property. Approximately one quarter of these properties are rented out, with three quarters of them owner occupied. Although some of the properties have been owned and lived in by Guernsey families for decades, the general belief is that most are owned and lived in by people without residential qualification.
33. Open market properties, given their scarcity and the tax and other attractions of living in Guernsey, are expensive. The average price of properties sold in 2001 was about £600,000 with just under 100 transactions occurring. This is a turnover of about 6% of the stock. Rented open market properties are also very expensive, being rented by high income households.

³⁶ See St John A Robilliard, *Guernsey's Housing Control Law : A Study*, 1985.

³⁷ For further details see the Housing Authority notes, *Housing Control and Right to Work Laws in Guernsey*.

34. Local market property comprises the remainder of the housing stock, some 20,000 properties. Only people with residential qualification are eligible to live in these houses, be they privately owned/rented or States' rented. Residential qualification rules are complex and have been amended through time to become ever more so³⁸. In addition to residentially qualified islanders, some people may be granted a Housing License. This permits such a person to occupy local market property (but not to rent States' housing).
35. The Housing Authority administers the Housing Control Laws and the licensing system (as well as the Right to Work Laws). Housing Licences are granted mainly to those whose presence is deemed "essential" to the well being of the community. Typically these non-locals do an essential job, such as teaching, healthcare or specialisms in the finance industry, where there is no qualified local person available to fill the vacancy. There can be other grounds for issuing a licence, such as compassionate grounds, en famille and short term licences in tourism and horticulture, but licensing is aimed at essential workers. Excluding short term licences there are approximately 2,500 live licences³⁹. Employment related licences are generally restricted to 5 years maximum.
36. Local market property is more numerous and, given the restrictions on who can occupy such property, is less expensive than open market property. As previously noted, the average price of local market property was £226,000 in 2001, with some 900 transactions⁴⁰. This is a turnover of around 5% of the non-States' local market housing stock⁴¹.
37. The focus hereafter is on local market property and not on open market property.

(ii) Owner occupation

38. The statistics presented so far refer to the whole Guernsey population, rather than just those entitled to occupy local market accommodation. This introduces some bias as the non-residentially qualified can only occupy open market property. In consequence the extent of owner occupation reported for the whole population may be inaccurate if concern is with the housing tenure of the residentially qualified alone. This is a similar issue to that on Jersey with its own split in the population between the residentially and non-residentially qualified population

³⁸ *Ibid.* There are 11 principal ways outlined for residential qualification to be achieved.

³⁹ For further details see Policy & Research Unit, *2002 Sustainable Guernsey : monitoring Social, Economic & Environmental Trends*, 2002., p.29.

⁴⁰ Net of delaisances and nominal/family transactions.

⁴¹ This appears to have been quite stable over the years and suggests the average household moves house infrequently, perhaps every 15-20 years.

(though there the rights of each category are considerably different to the situation on Guernsey)⁴².

39. Unfortunately, there is no comprehensive data available on the residential qualification status of households residing in open market property in Guernsey. However, census data does allow the whole open market segment, which will include both non- residentially and residentially qualified households, to be stripped out of the aggregate numbers. I have done this. However, as might be expected given the relatively small size of the open market compared to the rest of the housing sector, excluding all the open market households results in only small changes to the percentages of households occupying different tenures, so data continues to be presented hereafter for the whole Guernsey population and this nuance is put to one side⁴³.
40. The large number of owner occupied households, over 16,000, supports a number of specialised “housing” businesses. As previously noted, in 2001 there were nearly 1000 local market property transactions at an average price of £226,000. Including the open market sales means that total non-commercial property sales were around £275m last year. There are a considerable number of estate agents servicing the market. The main ones include; Lovells, Martel Maides, Swoffers and Cooper Brouard. Fees for selling a house are relatively standard, being 1.5% for sole agency and 2.0% for joint agency, with only the smaller agencies discounting from this.
41. For anyone wishing to take out mortgage finance there are many products and providers. The product range is very similar to that in the UK, with variable rate, discounted, fixed, tracker, capped and other varieties all available⁴⁴. Rates are also similar to the UK with some price variation, but a standard variable rate mortgage available at between 1.5% and 2.0% above base rate. There are a number of tracker products with rates only 1% above base rate. In comparison to the UK there are not as many mortgage providers. The main ones in Guernsey include; Barclays, Bristol and West, HSBC, Bank of Scotland and Royal Bank of Scotland. The States itself has sometimes been significant with its Home Loans Scheme.
42. The market shares of these mortgage providers have varied over the years as some companies have become more, or less, aggressive in seeking business. LECG have investigated current market shares by examining Greffe records for May 2002 and matching house purchase with property bond records. Unusualities of Guernsey undertake this type of monthly analysis on a commercial basis for the finance sector. Measuring market shares of mortgage finance can be

⁴² See footnote 14 for the numerical implications.

⁴³ For 2001, for the whole population tenure is 71.8% owner occupied, 18.7% privately rented and 9.4% States’ rented. For the population, excluding all open market households, the figures become 71.3%, 18.7% and 10.2% respectively.

⁴⁴ As evidenced in the Mortgage Ratefinder section of the fortnightly *Guernsey Homefinder* publication.

complicated as it can be measured on a new business basis or on an outstanding stock basis; it can be measured by the number of loans arranged or their value; and it can be measured for genuinely new loans alone or it can include re-mortgages, second and subsequent loans and so on. The distinction between property and other bonds in the Greffe records also complicates matters. The Table below presents some estimates of recent market shares.

Table 9 : Market shares of mortgage lending in 2002, by value.

<i>Company</i>	<i>LECG estimate for May 2002</i>	<i>Unusualities of Guernsey estimate for first half of 2002</i>
Royal Bank of Scotland	19.8	27.0
Bank of Scotland	18.6	12.1
HSBC	18.1	14.3
Barclays Bank	15.6	15.7
Bristol & West	13.0	11.3
Lloyds TSB Bank	7.9	5.1
States of Guernsey	5.8	3.9
Others	1.4	10.6

Notes

1. There will be considerable variation month on month of market shares as the numbers of transactions per month is relatively small.
 2. The Unusualities estimate is for identifiable property bonds only.
43. Mortgage lenders lend more than in the UK. Packages are available for lending upto 5 times single or joint incomes, whereas in the UK the normal maximum is much lower at 3 to 3.5 times single or joint incomes ⁴⁵. Lending criteria by Guernsey companies are now more oriented to an affordability or net disposable income (NDI) criterion, whereby the individual financial circumstances of the borrower are more closely examined. Gross income is reduced by tax and other regular outgoings, such as any existing loan payments, to arrive at a borrower's net disposable income. Lenders will then lend mortgage finance up to a certain percentage of this. It is understood that this is typically 40% but that some lenders will currently go further up to 50%.
44. The average mortgage held and the average new mortgage currently being taken out are both uncertain as there are a number of conflicting data sources and

⁴⁵ Though there does seem to be an upward tendency there, driven by the belief that the UK economy is now in a more permanent low inflation, economic growth, low unemployment more stable condition. Whether this turns out to be true is more debatable.

results. The LECG estimate above for May 2002 finds that the average new mortgage in that month was around £150,000, or 57% of the average property price. The Unusualities estimate above for the first half of 2002 finds that the average new mortgage is £177,000, or 73% of the average property price. Given the average individual and household income levels reported later, the lender's multiples above, and even the average size of States' loan, also reported later, it seems most likely that average new mortgages are well above £125,000 and probably somewhere in the £140,000 -£180,000 range. It is not known how the remainder of the house price is currently financed, be it from existing home equity, savings or some other source, such as family loans/gifts.

45. The average size of mortgage outstanding across all owner occupiers is much less certain. LECG calculations from the data presented in the Opinion Research Services report suggest the average mortgage held by owner occupiers in 2000 was £120,000 ⁴⁶. However this does not square with data provided by the Income Tax Authority (see later) which suggests the average mortgage outstanding was perhaps as low as £50,000 in 2000. The Income Tax Authority estimate is almost certainly an under-estimate, but it is on a different scale to the Opinion Research Services estimate. Combining Income Tax Authority data with a finding of the Townsend Centre for International Poverty Research, see para. 92, gives another estimate of £ 72,000. This seems much more reasonable, given the past rates of growth of owner occupation, the frequency of moving and the history of house prices in Guernsey.
46. Once a property is identified for purchase and any mortgage finance is agreed there are some additional costs before completion. For a cash purchase, these costs can be upto 3.75% of the purchase price of the property. This is made up of 2% treizieme ⁴⁷ and 1% document duty, both taxes payable to the States of Guernsey, and 0.75% legal fees. There are also some minor Court charges.
47. Treizieme has been 2% for some time. However, the Budget Report for 2001, approved in November 2000, proposed the abolition of treizieme. This was largely on the grounds that it is in fact a Crown Revenue (and so does not remain in States' hands). The Budget Report for 2002, approved in November 2001, stated that approval to abolish it had been received from the authorities in the UK and that an Order in Council was to be brought forward in 2002 to do that. This has now been done ⁴⁸.
48. Document duty is now 1% of the value of the transaction, but for just that part of the value above £150,000. Prior to this the duty had a complex structure being at different rates and bands, depending on the value of the property. Prior to 2000 there were four rates, a zero, 0.5%, 1.0% and 1.5% band. The Budget Report for 2001 reduced this to three rates, abolishing the 1.5% rate. The Budget report for

⁴⁶ Opinion Research Services, *op cit*. There mortgage payments were on average £8800 a year, representing 35% of average individual gross earnings.

⁴⁷ An old feudal due, meaning one-thirteenth.

⁴⁸ Billet d'Etat XX, September 2002.

2002 reduced this to two rates; zero upto a value of £150,000 and 1% thereafter. These changes have reduced the significance of document duty in house purchase. In contrast the UK retains a tiered, and more onerous, structure of its equivalent tax, stamp duty - see Annex 3.

49. There is a grant payable to first time buyers by the Housing Authority for document duty and treizieme, if certain eligibility conditions are met. The monetary limits on the grant are reviewed every six months or so to keep pace with rising prices.
50. The Budget Report for 2001 recommended that the revenue lost by reducing document duty, and the prospective abolition of treizieme;

“should be replaced by increases in other indirect taxes, particularly taxes on rateable values”⁴⁹

51. Legal fees seem to be standard and set according to scales laid down by advocates. The process of conveyancing is more complex than in the UK. Guernsey has no Land Registry so that title to property has to be researched and vetted by the purchaser’s advocate. As the island’s property stock has become ever more fragmented establishing title has become more complex and time consuming, at least in some cases.
52. If a purchaser is also taking out a mortgage to help finance the transaction then additional fees are payable. Some lenders charge an arrangement fee and a borrower is also required to pay the costs associated with the preparation of the property bond. This is typically 0.7% of the value of the mortgage loan.
53. Lenders will also require a survey of the property and may subsequently also require buildings, contents and other insurances to be arranged.
54. The cost of buying property in Guernsey is therefore very much dependent on the particular circumstances of the purchaser; whether there is a property to sell first; whether a mortgage is required for the new property; the size of mortgage; the cost of the property and so on. The type of property can also affect the total cost. Flat sales have become more common, since a revision of the law took place some 10 years ago (to enable flats to be more easily bought and sold) , but they can still involve additional legal fees. Without further research it is not possible to say exactly what the average cost of buying the average property is.
55. Once a property is bought there is another ongoing property cost which is dealt with here. This is rates. In Guernsey this has two parts- the tax on rateable value (TRV) administered by the Cadastre Department, which flows to the States, and the occupier’s rates, which are levied by the individual parishes, and which flows to them for their spending ⁵⁰.

⁴⁹ Advisory and Finance Committee, *Budget Report for 2001*, para.1.99.

⁵⁰ On refuse collection, local services and administration, parish church upkeep and so on.

56. The rateable value (RV) system of properties in Guernsey, administered by the Cadastre Committee and Department, is the basis for both sets of rates. However, it is widely seen as outdated and it is intended to reform it, though change seems unlikely before 2003 or 2004. The last Budget Report noted;

“ Although revised from time to time, the present rating system was devised in 1947 and uses a system of notional “ annual rental values”. These are calculated with reference to the square footage of the property... Any system which has been in use for such a long time will inevitably develop anomalies, The (Advisory and Finance Committee) intends to work with the Cadastre Committee to see how the present system can be revised.. ”⁵¹

57. Because RVs are based on 1947 values, RVs of property in Guernsey are extremely low. They generally lie in the range of £35-£100, with a house perhaps typically £55 and a flat £75.
58. TRV is set in the budget. There was no change to the TRV rate from 1995 to 2001, when that year’s budget increased the rate by 18% from £1.22 to £1.44 per pound of RV. This was less than the general rise in inflation in the period, which was about 22%. As the Budget Report put it;

“ The proposal thus represents a less than real terms increase over the period since the last change ”⁵².

59. TRV raises approximately £4m for the States. It was unchanged in 2002. Parish rates vary across the parishes, from around £1 to £1.70 per pound of RV. It is estimated that the bulk of properties currently pay TRV of £50-150 a year, with parish rates of a similar amount. On going tax payments on domestic property are thus in the region of £100- £300 a year. This is substantially below the tax levied in the UK. Even loading the loss of revenue from the abolition of trezieme and document duty onto TRV, which might double TRV, would still leave it below the UK.
60. As house prices have risen in the last 20 years a particular concern has been the affordability of owner occupied housing. This is conventionally measured by examining average income in relation to average house prices. Determining average incomes in Guernsey with precision has proved difficult.
61. ESU have provided LECG with a time series of average earnings, for a full time employee, stretching back to 1981. Up to 1997 the calculation of average earnings was based on a special exercise combining income tax, social security and census data. Since then it has been estimated on the basis of aggregate remuneration data. It is therefore rather more suspect for recent years.

⁵¹ Advisory and Finance Committee, *Budget Report for 2002*, paras.5.13-5.14.

⁵² Advisory and Finance Committee, *op cit.*, para 1.62.

62. The Income Tax Office has also provided LECG with income data for single and married taxpayers, and LECG have calculated an average individual income, for tax purposes, from this. This is used as a cross check against the ESU data.
63. However, the affordability of owner occupation will vary considerably between individuals. Some individuals will be in households, either married or unmarried, where household income is significantly different to, and larger than, individual income. Thus, the Household Expenditure Survey of 1998/1999 found that the average household income was about 1.6 times larger than the average individual income⁵³. However, an alternative calculation, less robust, for 2000 suggests average household income is only 1.4 times average individual income⁵⁴.
64. Ideally, the distribution of individual and household incomes should be examined when considering affordability, as the possibility of buying property could well have deteriorated for those on below-average incomes. The house price data in section 2 suggested that house price relativities across different price bands had been relatively unchanged in the last 20 years, but incomes may not have grown equally across all income bands in that period. If the distribution of income had deteriorated for below average income earners they would be finding it more difficult to buy property. However, there is no time series data available on the distribution of income to test this possibility. The only occasion distributional data has been collected was in the last, 1998/1999, Household Expenditure Survey. I recommend it is collected in all such future surveys.
65. Given this, I analyse the affordability of owner occupation by comparing average house prices with average individual earnings. This is done in the table below.

⁵³ Advisory & Finance Committee, *Household Spending : A Report on the 1998/99 Household Spending Survey*, August 2000. There average income was reported as £22,000 in 1998 but average household income was £35,000.

⁵⁴ This compares average household income of those responding to the Opinion Research Service survey, *op cit.*, with average individual income from ESU. In the Opinion Research Services survey, average household income was £35,000. LECG also calculate from that source that average household income of those in owner occupation was above this at £44,500 with average States' rental households having an average household income of £14,500.

Table 10 : Affordability of Guernsey housing as measured by price/earnings ratio, 1981-2001.

<i>Year</i>	<i>Average house price, nominal terms, £.</i>	<i>LECG estimate, based on Income Tax data, of average earnings, nominal, £.</i>	<i>ESU estimate of average earnings, nominal, £</i>	<i>Price/Earnings ratio</i>
1981	28135	n/a	5783	4.9
1982	28601	n/a	6329	4.5
1983	28400	n/a	6732	4.2
1984	34125	n/a	7251	4.7
1985	36610	n/a	7927	4.6
1986	43384	n/a	8796	4.9
1987	57330	n/a	9707	5.9
1988	68090	n/a	10748	6.3
1989	101577	n/a	12110	8.4
1990	99731	n/a	13393	7.5
1991	99539	n/a	14882	6.7
1992	96058	n/a	16265	5.9
1993	95761	13382	17272	5.5
1994	97362	14189	18453	5.3
1995	102898	15188	18822	5.5
1996	115725	16358	19613	5.9
1997	141093	17107	20691	6.7
1998	152890	18491	22016	6.9
1999	161387	19903	23689	6.8
2000	190854	22740	25536	7.5
2001	226386	n/a	27706	8.2

Notes

1. Average earnings and house price data from ESU.

66. I use the ESU estimate of average earnings as it is the longer series. The Income Tax data is generally lower as it includes part-time workers, whilst the ESU estimate is for a full time worker. Nevertheless the growth in the Income Tax estimate over 1993-2000 is 70%, which is greater than that in the ESU estimate, which is 48%. Unless unearned income has been growing very rapidly, it may be that ESU are underestimating earnings growth of late.

67. It can be seen that the calculated price/earnings ratio has had two peaks. The first peak was in 1989 when it reached a value of 8.4, following the rapid rise in house prices in the late 1980s. It subsequently declined as house prices fell back. However, since 1994 it has risen back up to 8.2 last year, with the likelihood of being somewhat higher still at present. It is quite possibly at a new peak for the whole period.
68. The same peaking is evident in the UK, with price/earnings ratios in some parts of the UK, such as Greater London and the South East, also at levels at or above that reached in the late 1980s price boom⁵⁵.
69. However, these ratios do not give a complete picture of the burden of owner occupation on the household budget. This is because houses are not bought outright, but normally with a mortgage. Mortgage costs, based on interest rates, have not been stable throughout the last twenty years. Interest rates are in fact now at a long term low, so the current burden of buying is much less than portrayed in Table 10a.
70. An affordability index can be constructed to take account of the changes in interest rates over the period. This is done in the table below. The index is the product of the first two columns and represents the percentage of gross average income that interest payments would take if; the purchaser were buying the average house; the purchaser were on average income; and, the purchaser took out a 100% loan to value (LTV) mortgage.

⁵⁵ *Financial Times*, House price blow for teachers, 15th July 2002, p.2, and, Average London house price more than eight times nurse's annual salary, 19th July 2002, p.4, both reporting on research by the Halifax. See also, *Financial Times*, Alarm bells ringing as house prices hot up, 9/10 November 2002, p.3, which reports that house prices in relation to earnings are now generally above the level of the last boom.

Table 10a : Affordability of Guernsey housing as measured by LECG affordability index, 1981-2001.

<i>Year</i>	<i>Price/Earnings ratio</i>	<i>Base rate + 1.5%</i>	<i>Affordability index</i>
1981	4.9	n/a	n/a
1982	4.5	n/a	n/a
1983	4.2	n/a	n/a
1984	4.7	n/a	n/a
1985	4.6	13.5	62
1986	4.9	11.5	56
1987	5.9	10.5	62
1988	6.3	9.5	60
1989	8.4	15.5	130
1990	7.5	15.5	109
1991	6.7	13.5	90
1992	5.9	11.5	68
1993	5.5	7.5	41
1994	5.3	7	37
1995	5.5	8.25	45
1996	5.9	7.5	44
1997	6.7	8.25	55
1998	6.9	8.75	60
1999	6.8	7	48
2000	7.5	7.5	56
2001	8.2	6.5	53
Average over the period	6.0	10	63

Notes

1. Average earnings and house price data from ESU.

71. The index cannot exceed 100 as this means that gross interest payments on such a mortgage would be bigger than the gross income of the borrower, i.e. housing is taking all the income of the individual. But what such an index does is to scale the changes in affordability. If desired the index could also be made more refined and more representative, so that a lower LTV is taken (more typical of the

average LTV taken out); due allowance for tax and mortgage interest relief is made; and so on. As data on the average mortgage taken out in the period, and so the average LTV, is uncertain this has not been done. It seems quite probable that the average LTV for new borrowers has not been constant in the period.

72. However, what the index does unambiguously show is that affordability is nowhere near such a problem as it was in the late 1980s. The 2001 index is below its average over the last 15 years. If we assume that house prices have risen by 10% since 2001, that income is growing at 5% and that the average mortgage rate is now 5.5%, the index should have fallen still further since last year to a value of 47. The above average price/earnings ratio has been more than compensated for by a fall in interest rates to a 38 year low.
73. Looking ahead perhaps a more important question is what occurs when, and if, interest rates rise from that low. Any rise in base rate would however be cushioned in Guernsey by the existence of interest rate tax relief. A longer term consequence of the low inflation/ low interest rate environment is that the debt taken on by current borrowers will not decline as rapidly as it did for borrowers in past decades when the real value of debt was more quickly eroded. It is an open question whether the sustainable level of real debt for households over the life of the mortgage has risen. In the UK the average household debt burden is at a historic high. The same is likely to be true in Guernsey. Indeed, given the low real post-tax cost of borrowing in Guernsey (see later), it is probable that personal debt levels in Guernsey are much higher than in the UK.
74. Nevertheless, answers to some of the questions posed by Opinion Research Services in 2000 confirm that for those able to buy their next home the immediate affordability may not be an overwhelming concern. The majority were able to afford prices above £175,000 and a significant number were able to buy outright with no mortgage at all ⁵⁶.

(iii) Private rented

75. The private rented sector houses nearly 19% of Guernsey households. In a free market, one might expect average private rents to move broadly in line with average house prices. This is for several reasons. First, as house prices rise, say, so households will tend to delay purchase and remain in, or switch, to renting as a preferred choice. This will maintain and/or increase demand for rented accommodation and raise prices there. Eventually however if rental prices get too high, purchasing property will become more attractive. Second, landlords will not stay landlords if the returns on owning and renting out get too far out of line with returns available elsewhere from other financial assets. If rents stayed constant but property prices rose, the gross income yield from renting would fall and some

⁵⁶ *Op cit.*, answers to the various parts of question 12.

landlords would sell their property and invest elsewhere⁵⁷. Such changes will tend to assert themselves eventually in any market. In the longer term therefore one would expect house and rental prices to move with each other, such that the relative prices of renting and owner occupation are broadly constant⁵⁸.

76. ESU have provided LECG with private rents data from 1989. This is from the data collected for the quarterly RPI report. It is tabulated below. In the 1989-2002 period rents rose from an index value of 100 to 319. The all items RPI in the period only rose from 100 to 180, so rents rose in value in real terms. Referring back to Table 3, and assuming house prices have risen 10% since last year, house prices rose in the same period from an index value of 100 to 245. Private renting therefore has become relatively more expensive compared to house prices in the period. The existence of rent control laws, see later, does not appear to have exerted any restraining influence on the growth of rents because the number of properties so controlled is only a small percentage of those in the sector- 50 out of approximately 4,000.

⁵⁷ This conclusion would be moderated by the extent to which landlords were concerned with income or total (income plus capital) yield.

⁵⁸ Assuming there is no long term structural change in the preferences of the population about housing tenure.

Table 10 : Private sector monthly rents, 1989-2002.

<i>Year</i>	<i>Average monthly rent, £.</i>	<i>Index, 1989 = 100</i>
1989	146	100
1990	165	113
1991	211	145
1992	243	166
1993	267	183
1994	320	219
1995	339	232
1996	356	245
1997	371	254
1998	392	268
1999	413	282
2000	426	294
2001	446	305
2002 first half year	466	319

Notes

1. Data from ESU, based on RPI quarterly data.

77. House prices and rents have not grown exactly in line with each other, as economic theory might predict. The explanations for the difference in growth are not obvious. The proportion of the population renting has fallen in the period. This would tend to lower price growth. However, the absolute numbers of households renting has risen a little. This would tend to increase real prices. A further possibility is that lags in the adjustment process of price relativities means that either 1989 or 2002 were not reflective of the underlying long term relativity. Perhaps the type and quality of property sold and rented might have changed or there might have been a shift in underlying preferences away from buying to renting. Alternatively the small numbers of observations collected for the RPI data set might mean that it is not wholly accurate.

78. Calculations of average Guernsey rents from other sources, such as the 2001 Census ⁵⁹ and the Housing Needs survey ⁶⁰, point in different directions. Private sector rents in the uncontrolled sector in the UK are about the same as those reported for Guernsey, being £440 per month in 2000/2001 ⁶¹. Given this, and as the RPI data is the only continuous series of rents data, its results are used hereafter as the best estimate of private rents in Guernsey.
79. Despite the real increase in rents, the average rent for 2001 of £446 per month represented just 19% of the gross average individual earnings for the same year. However, if the average earnings of those in rented accommodation were different from the economy-wide figure then this would change accordingly. It seems likely that the average earnings of those in rented accommodation are below the economy-wide figure.

(iv) States' rental

80. The proportion of households in States' property has declined from a little over 10% in 1981 to a little over 9% in 2001. The number of properties and households in the States' estate has however grown. In 1981 there were 1963 properties rented out by the States and in 2001 there were 2151. There has been a modest net build programme which continues today.
81. States' housing is reserved for locally qualified residents. It is currently generally restricted to families with dependent children and people of pensionable age, who, generally, will not have previously owned property. The Authority also exercises discretion in housing people with significant medical conditions. States' housing is also aimed at those on low and modest income, and is what is commonly called social housing. Acceptance of a new applicant for such housing is generally conditional on their gross income not exceeding certain levels. As noted in footnote 51, the average income of a States' household in 2000 was £14,500. This was 58% of gross average individual earnings in that year, so States' tenants are typically the poorer members of the community.
82. There are some established States' tenants whose income is now well above these levels, though there is no comprehensive data on the distribution of States' tenants incomes. However, a special scheme for States' rents, the Higher Earner Surcharge, does exist and there are a number of tenants earning more than the trigger level of £32,000 per annum income.

⁵⁹ At para 4.42, where rents appear to be well below RPI levels. This might be because States' rents are included.

⁶⁰ Question 5d answers suggest average rent levels well above the RPI level.

⁶¹ In 1.4m. assured tenancies, which represent 66% of the private rented sector. See www.housing.dtlr.gov.uk.

83. The average level of States' rents is set out below, with States' tenants currently paying almost £8m in gross rent. The gross rent of £303 per month represents 25% of the 2000 average States' tenants income. There is a rebate scheme- see later- which reduces this to 18% of the 2000 average income.

Table 11 : States' housing gross monthly rents, 1989-2002

<i>Year</i>	<i>Average gross monthly rent, £</i>	<i>Index, 1989 = 100</i>
1989	143	100
1990	168	117
1991	176	123
1992	199	139
1993	206	144
1994	211	148
1995	217	152
1996	231	162
1997	240	168
1998	247	173
1999	253	177
2000	258	180
2001	287	201
2002 first 18 weeks	303	212

Notes

1. LECG calculations based on Housing Authority data.
2. Policy on States' rents is under review. This is discussed fully later.

84. The number of households on the waiting list for States' housing has been quite variable over the years as the table below shows. Waiting lists for public housing can be quite instructive as they reveal demand which cannot be met elsewhere. Thus waiting list numbers rose in the 1980s as house price (and rent) inflation occurred and have done so again, somewhat irregularly, since 1995.

Table 12 : Numbers of States' properties and waiting list, 1981-2002.

<i>Year</i>	<i>Numbers of States' properties</i>	<i>Numbers on waiting list for States' rental</i>
1981	1963	259
1982	1996	244
1983	1989	298
1984	1988	343
1985	1994	319
1986	1999	352
1987	2016	330
1988	2060	310
1989	2113	n/a
1990	2181	n/a
1991	2195	n/a
1992	2231	194
1993	2207	187
1994	2206	117
1995	2210	172
1996	2195	126
1997	2180	120
1998	2165	97
1999	2170	165 at year end
2000	2182	170 at year end
2001	2177	196 at November
2002	2132 at July	166 at May

Notes

1. Data from Housing Authority.
2. The way waiting list statistics have been compiled has changed frequently. Wherever possible data is for mid year.

85. The Housing Authority has a points system to allocate property to those waiting. Points are awarded for different aspects of their circumstances, such as the suitability of their current accommodation. Older applicants who qualify for States housing will sometimes apply early and remain on the list for some years before needing a States' property.

4. States' Housing Policies

86. The current and recent strategic housing policies adopted by the States are set out fully in various official documents and they are not repeated here⁶². The main point for our purposes is that there is no discussion in those documents of any of the existing policies which affect the demand for housing, such as the States' Home Loan Scheme, rent control, rent rebate, and so on. Instead there is an almost total focus on the supply side and new house construction.
87. Thus in outlining housing strategy in the annual *Policy Reports* a long term annual housing requirement is forecast, which was 250 homes a year for some years but has now been increased to 300 homes a year, following the needs survey⁶³. This target is then reflected in planning documents, and particularly the development plans, to make available sufficient land for the private sector (property developers and builders) to deliver such a target. There are various strategies adopted to ensure that new housing development takes place in defined locations on the island (broadly urban brownfield sites first and then housing target areas). The type and cost of housing that is built is largely left upto the private sector, though the development plans try to facilitate the provision of affordable housing. Where the States itself has owned land and made it available for housing projects it has recently tried to ensure this is used for low cost housing via making conditions of sale on the land.
88. A number of policy initiatives are underway, such as the formation of the Guernsey Housing Association, investigation of partial ownership schemes and the provision of more sheltered housing. However, important elements of States' housing policy, which are not referred to in the planning documents, have existed for the last 20 years. These elements have long term effects when they are in place for decades. They are covered below.

(i) Interest tax relief

89. Mortgage interest tax relief (MITR) is an important housing policy instrument as tax breaks give incentives to households, in this case to spend on housing. There is a substantial financial cost of MITR to the States through the lost tax which would otherwise accrue in the absence of the relief. It is revenue foregone and is the economic cost of the scheme.
90. In fact, there is general tax relief on all interest payments made by taxpayers. With housing, this relief is unrestricted. All mortgage interest can be claimed as a

⁶² See, for example, Advisory and Finance Committee, *2001 Policy & Resource Planning Report, incorporating the draft Strategic & Corporate Plan*, July 2001, and the *2002 Policy & Resource Planning Report, incorporating the draft Strategic & Corporate Plan*, July 2002.

⁶³ *Op cit.*

relief, irrespective of the number of mortgages (and so the numbers of properties to which it applies) or the location of the property (so the purchase of a property outside Guernsey is eligible for relief).

91. It is difficult to be certain about the numbers of people claiming mortgage interest relief and size of mortgage interest being claimed as all interest claims are aggregated in tax returns and not separately identified by the tax authority in its computer records. But the Administrator of Income Tax has provided me with his best estimates. These are tabulated below.

Table 13: Mortgage interest claims and cost, 1993-2000.

<i>Year</i>	<i>Total interest claims, £m.</i>	<i>Mortgage interest claims, £m.</i>	<i>Lost revenue to States @ 20% tax rate, £m</i>	<i>Number of taxpayers making an interest claim</i>	<i>Average mortgage interest claimed per case, £.</i>	<i>States subsidy per claimant, £.</i>
1993	41.0	30.8	6.2	13,527	2274	455
1994	38.9	29.2	6.0	12,001	2433	487
1995	42.0	31.5	6.3	12,542	2510	502
1996	45.4	34.0	6.8	12,785	2662	532
1997	49.4	37.1	7.4	12,858	2883	573
1998	55.3	41.5	8.3	13,152	3155	631
1999	60.6	45.5	9.1	13,270	3426	685
2000	60.2	45.1	9.0	13,364	3376	675

Notes

1. Mortgage interest is estimated at 75% of total interest claims.
2. The number of tax payers claiming is the total number making any interest claim. This will be an overestimate of the numbers claiming mortgage interest, as some taxpayers will have no mortgage but will have other loans. Hence the end column showing the mortgage interest claim per claimant and the implicit subsidy to each will be underestimates of the true position.
3. Source of data is Income Tax Authority and LECG calculations.

92. It can be seen that the cost to the States of giving mortgage interest tax relief has risen steadily over the 1990s, despite changing, and generally falling, nominal interest rates in the period, and is probably now running close to £10m a year. This is equivalent to a subsidy, at minimum, of almost £700 per mortgage holder. Clearly, those with larger than average mortgages, such as the average new

mortgage holder, will be receiving a greater sum. Making a number of assumptions it can be shown, on the basis of the average mortgage interest claimed, that the average mortgage outstanding in 1999 was around £50,000⁶⁴. This is considerably less than the earlier estimate presented of £120,000. The reason is that the numbers making an interest claim will include many who have borrowing but no mortgage. The Townsend Centre for International Poverty Research survey found that 43% of owner occupiers owned their homes outright and 57% had a mortgage⁶⁵. Using this fact with the tax data suggests that the average mortgage outstanding is £72,000. This seems a rather more reasonable estimate of the average mortgage outstanding-- see the earlier discussion at para. 45.

93. The UK's experience of MITR is detailed at Annex 3.

(ii) States' home loans scheme

94. The States' Home Loans Scheme (SHLS) is an explicit subsidy scheme targeted at first time buyers to enable them to purchase a house. It was set up in its present form in 1991. A similar and long standing scheme, the Homes for Workers' Loans Scheme (HWLS), with broadly similar aims, existed immediately before. All SHLS loans are subject to variable rates of interest related to the borrower's means and are generally below commercial rates.
95. There are various eligibility criteria for SHLS loans. These include; applicants have to be residentially qualified; they must have lived in Guernsey for 5 years prior to the loan being granted; they should not previously have owned property; they must generally be able to repay the loan by the age of 65 with a maximum repayment period of 35 years; they must be over the age of 18 at the time of conveyance. Potential applicants must get onto a waiting list for loans. Loans are not normally made to people not on the list.
96. When applications exceed the numbers of loans available priority factors are; families; the length of time on the waiting list; and the applicant's age (older applicants being given priority over younger). At the start of each year the Housing Authority, which administers the scheme, determines the number of loans it will make and in mid-year reviews the number of offers and acceptances. This is to avoid overrunning the allocated budget.
97. There is a maximum loan available, currently £130,000, so that a commercial top-up loan is often required as well as the States' loan in order to buy a first time buyer property. The loan repayments of a SHLS loan are normally set at one quarter of the applicant's gross income and the interest rate applying to the loan is then calculated from the monthly repayments.

⁶⁴ Tax returns are one year in arrears.

⁶⁵ Townsend Centre for International Poverty Research, *op cit.*, p.119.

98. The table below shows details of States' loans granted for house purchase over the last 20 years under the HMLS and the SHLS.

Table 14: Numbers and values of States home loans, 1981-2001.

<i>Year</i>	<i>Loan limits, £.</i>	<i>Number of purchase loans</i>	<i>Gross value, £m.</i>	<i>Average loan, £.</i>
1981	15000	131	1.9	14500
1982	15000	97	1.4	14000
1983	20000	125	2.3	18500
1984	20000	91	1.7	18500
1985	20000	55	1.1	19500
1986	23000	47	1.2	25500
1987	34000	57	2.0	35500
1988	43000	71	3.2	45000
1989	46000	131	6.4	49000
1990	58000	67	3.9	57500
1991	64000	54	3.3	61500
1992	64000	48	3.0	61500
1993	64000	89	5.4	61000
1994	64000	68	4.2	62000
1995	64000	66	3.9	59000
1996	64000	45	2.8	62000
1997	64000	30	1.9	63500
1998	87000	41	3.2	78000
1999	115000	69	7.3	106500
2000	130000	170	19.5	114500
2001	130000	133	15.7	118000

Notes

1. Data from Housing Authority and LECG calculations.

99. As can be seen the loan limit and average amount of loan advanced has risen considerably over the years, reflecting the rise in property prices and necessity for loan finance. When property prices were more stable in the early 1990s, and were actually falling in real terms ⁶⁶, the SHLS was itself stable. The rise in house prices since 1995 is reflected in the demands on the SHLS. For 2000 and 2001 the waiting list was suspended and loans were given on demand with the result that lending increased dramatically. For 2002 a rationing policy has been introduced and 70 loans are to be made.
100. Although the SHLS loaned over £15m in 2001 this was not all subsidy as some interest was paid on the capital. For an individual borrower the subsidy given, from the below commercial rate charged, depends on the borrower's income, the term of loan and the sum advanced. From the States' viewpoint the subsidy being granted, and hence the cost of the scheme, depends on the gap between the average rate of interest being charged on SHLS loans and the commercial borrowing rate. This is the rate the States could loan money at if it was a fully commercial lender ⁶⁷. The table below examines the loan book of the SHLS and its predecessor.

⁶⁶ See earlier Table and graph 1.

⁶⁷ The accounting cost to the States may be different. It will be the gap between the interest earned on SHLS loans and the States' borrowing rate for the funds used. If the borrowing rate and the lending rate are the same then the accounting and economic costs are identical.

Table 15 : States' loan book for assisted house purchase, 1981-2001.

<i>Year</i>	<i>Loans outstanding £m.</i>	<i>Interest received, £m.</i>	<i>Rate of interest earned, %.</i>	<i>Commercial lending rate, %.</i>	<i>Interest rate subsidy, %.</i>	<i>Cost to States, £m.</i>
1981	7.0	0.5	7.1	n/a	n/a	n/a
1982	7.3	0.7	9.7	n/a	n/a	n/a
1983	8.4	0.8	9.2	n/a	n/a	n/a
1984	9.0	0.8	9.4	n/a	n/a	n/a
1985	9.2	0.9	9.3	13.5	4.2	0.4
1986	9.0	0.9	10.1	11.5	1.4	0.1
1987	8.8	0.8	9.6	10.5	0.9	0.1
1988	10.0	0.8	7.8	9.5	1.7	0.2
1989	14.1	0.9	6.5	15.5	9.0	1.3
1990	17.5	1.2	6.8	15.5	8.7	1.5
1991	19.7	1.3	6.5	13.5	7	1.4
1992	19.1	1.3	6.6	11.5	4.9	0.9
1993	21.2	1.2	5.6	7.5	1.9	0.4
1994	22.2	1.1	5.1	7	1.9	0.4
1995	22.6	1.3	5.8	8.25	2.45	0.6
1996	20.2	1.4	7.0	7.5	0.5	0.1
1997	18.8	1.1	5.6	8.25	2.65	0.5
1998	17.2	1.0	5.8	8.75	2.95	0.5
1999	19.4	0.9	4.5	8	3.5	0.7
2000	31.7	1.0	3.3	7.5	4.2	1.3
2001	44.1	n/a	n/a	6.5	n/a	n/a

Notes

1. Data is from the Housing Authority.
2. The loan book is the combined Home Loan Fund account, now closed, and the Housing Development and Loan Fund account, opened in 1990.
3. Data above are rounded. Actual data used for calculations were not rounded.
4. The commercial lending rate used is average base rate in the year plus 1.5%.

101. It can be seen that the total of loans outstanding was relatively stable until the last few years when it has grown rapidly to be over £44m at the end of 2001. This is a result of the considerable sums advanced in 2000 and 2001. The relative stability of the loans total is because holders of SHLS loans do not keep them to maturity. As a borrower's income position improves and rises, so their SHLS monthly repayments increase (as does the effective interest rate they are paying on the loan). It will then pay them, when the effective SHLS interest rate exceeds the market rate, to move from a SHLS loan to a fully commercial loan with a commercial lender. The interest rate subsidy of SHLS loans on the book has varied considerably over the period but averages 3.6%. It averages a little lower since 1991 at 3.2%. It is readily apparent that there was a growing cost of the scheme around 1990 and this, no doubt, is part of the reason for the development of the new SHLS to replace the Homes for Workers' Loans Scheme.
102. The average subsidy levels to holders of SHLS loans can be calculated both on average to all loan holders and to those receiving loans in the year concerned (assuming the average interest rate subsidy applied to them)- see Table 17 below. If that is done for 2000, the last year for which full data is available, the average subsidy to a holder of a SHLS loan was £2700 and the subsidy to someone taking out a loan in that year was £4800. This reflects the fact that their loan is larger than the existing average. For 2001, assuming the interest rate subsidy is the same as in 2000, the figures become £3100 and £5000.

Table 16; Average loans and subsidies to SHLS borrowers, 1991-2001.

<i>Year</i>	<i>Average loan outstanding on book, £</i>	<i>Average subsidy to interest paid on that loan, £</i>	<i>Average new loan taken out in the year, £</i>	<i>Average subsidy to interest paid on that loan, £</i>
1991	26800	1900	61500	4300
1992	27500	1350	61500	3000
1993	33200	600	61000	1150
1994	35600	700	62000	1200
1995	37500	900	59000	1450
1996	38500	200	62000	300
1997	38700	1000	63500	1700
1998	39700	1200	78000	2300
1999	47000	1650	106500	3700
2000	64100	2700	114500	4800
2001	74200	3100	118000	5000

Notes

1. Housing Authority data and LECG calculations.

(iii) States' gross rents below market levels

103. It is now recognised that States' gross rents are well below equivalent private sector levels. The separate data previously presented in section 3 show this. For convenience the data are combined and repeated below.

Table 17 : Comparison of private and States' average gross rents, 1989-2002.

<i>Year</i>	<i>Private average monthly rent, £.</i>	<i>Index, 1989 = 100</i>	<i>States' average gross monthly rent, £</i>	<i>Index, 1989 = 100</i>
1989	146	100	143	100
1990	165	113	168	117
1991	211	145	176	123
1992	243	166	199	139
1993	267	183	206	144
1994	320	219	211	148
1995	339	232	217	152
1996	356	245	231	162
1997	371	254	240	168
1998	392	268	247	173
1999	413	282	253	177
2000	426	294	258	180
2001	446	305	287	201
2002 part year	466	319	303	212

Notes

1. Private rents data from ESU, based on RPI returns. States' rents data calculated by LECG based on Housing Authority data supplied.
2. For 2002 private rents is for first 26 weeks. States' rents is for first 18 weeks of year.

104. It can be seen that the average gross States' rent is currently £303 per month compared to an average private sector rental level of £466 per month. Rental levels were very similar in 1989, but States' rents have risen by substantially less than private rents in the interim so the two indices of private and public rents have diverged.

105. Official policy on States' rents stems from 1988 where in a report considered by the States the general statement of principle that "*rent subsidies should not be used to keep general rent levels low*" was put forward ⁶⁸. However the position of near equality obtaining in rental levels in 1989 has been eroded since by two

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trends. Firstly, there has been substantial rises in real private sector rental levels. Secondly, there have been conservative (generally RPI) increases in States' rents. This combination has led to a widening differential between States' rents and private sector rents. This *de facto* subsidy is widely recognised because the Policy and Research Unit has recently developed, after consultation with States' committees and outside bodies, a number of indicators of sustainable development for Guernsey. Strategic Indicator 3 for housing, the availability of subsidised housing, labels all States' housing as subsidised housing and also reports on the numbers of people waiting for subsidised housing. This has been published as a supplement to the 2002 Policy and Resource Planning Report ⁶⁹.

106. The Housing Authority has been aware of this problem for some time and is presently conducting a broad review of States' rents and the allied Rent Rebate Scheme (see later). It intends to report on this early in 2003.
107. The extent to which States' rents are below economic levels is in fact much larger than reported in Table 18 because the average States' property and the average private rented property are not the same. States' property, typically being houses, is larger than private rented accommodation, typically sub-divisions of a house. Over half States' properties are 3 bedroom houses. The average States' rent should therefore be compared not with the average private sector property for rent but with private rents for properties of the same type. Equivalent properties, and the rents for them, should be compared.
108. A more accurate measurement of the shortfall in States' rents is possible as the Housing Authority, as part of its States' rents and Rent Rebate review, commissioned Adamson & Partners to undertake a stock condition and valuation survey of States' property.
109. The Adamson review established local market valuations for States' property in November 2000. Local market values are the appropriate measure for economic cost, as the opportunity cost for the States is what it could obtain on the open market. Moving from the economic value of States' property to the economic rental level for that property requires an assumption about the appropriate gross yield on property. Various other adjustments might also be made. But assuming a 6% gross yield the economic level of average gross States' rents should then have been around £130 per week, or £560 per month ⁷⁰. Higher assumptions about the gross yield would lead to even economic rent levels ⁷¹.

⁶⁹ Policy & Research Unit, 2002, *op cit.*, p.46.

⁷⁰ LECG calculations based on data supplied by the Housing Authority, which seem to have used this as the central case in reviewing States' rents.

⁷¹ LECG note that a 6% gross yield is nominal and is under 3% in real terms in Guernsey. Allowing for tax and for the risks attached to property this is not be an unduly high real pre tax return. The long term gross income return from property has been around 8%. See, N Cohen, Rewriting a corporate script, *Financial Times*, 19th July 2002, p.22, and, Measuring the value of property, 12th July 2002, p.27.

110. If allowance is also made for the increase in the value of local market property since November 2000, the current average gross economic rent should be higher still. There is some uncertainty about the increase in average local market house prices since the date of the Adamson valuation, but the official increase from Q4 2000 to Q2 2002 has been 26%. This raises the economic level of States' rents to £703 per month for Q2 2002. The actual level of gross States' rents is currently £303 per month, i.e. well under half the economic level.
111. This implies that States tenants' are currently receiving an implicit subsidy of £400 per month, or £4800 a year, because of the low gross rents being charged. This works out at just over £10m per year as foregone revenue to the States arising from this source alone.

(iv) States' rent rebate scheme

112. States' tenants do not in fact pay the gross rents currently set because there is also a rent rebate scheme in operation. In order to assist tenants with low income the Rent Rebate Scheme (RRS) was approved by the States in 1971. The key elements were proposed in 1972. Its aim is to ensure that States' tenants do not pay more than they can afford.
113. The essential structure of the scheme has not altered, though annually it has been reviewed. Generally the value of the rebate has been increased in line with inflation over the years so that its real value has remained the same.
114. The main feature of the RRS is that there is a gross income limit, which if not exceeded, means that the States' tenant is eligible for rebate. The thinking here is that above the specified level of income the tenant can afford the gross rent set by the States. Below the specified income limit the tenant is deemed needy and the gross rent is increasingly abated as income gets less. As gross income declines through various income bands the rent payable is assessed at one quarter of gross weekly income, then one fifth, then one sixth and then, for people on very low incomes, one seventh. The upshot is that the lower the income the less net rent is paid, and the more the gross rent is abated. Those on the lowest income pay just one seventh of their gross income as rent.
115. There are various other small adjustments to the calculation to take account of individual and household circumstances but the essence of the rebate is as above.
116. The current income ceiling above which a tenant is ineligible, and below which a tenant is eligible, for rent rebate is £415 per week or £21,580 per year. Over 50% of States' tenants receive rent rebate, with the average value of rebate being just under £2000 a year. If this were applied to the average gross rent of £3600 a year, it would mean a monthly net rent of £135, or 22% of the true economic level.

117. The RRS costs the States some £2m a year in lost revenue and has increased in size over the years as the table below shows. As already noted, in real terms it is little changed.

Table 18 : Rent rebate scheme cost, 1988-2002.

<i>Year</i>	<i>Rent rebate, £m.</i>	<i>Number receiving rebate</i>	<i>Annual value of average rebate, £.</i>
1988	1.1	n/a	n/a
1989	0.9	n/a	n/a
1990	1.1	n/a	n/a
1991	1.1	n/a	n/a
1992	1.5	n/a	n/a
1993	1.7	n/a	n/a
1994	1.8	n/a	n/a
1995	1.9	n/a	n/a
1996	2.1	n/a	n/a
1997	2.1	n/a	n/a
1998	2.1	n/a	n/a
1999	2.1	1155	1846
2000	2.1	1142	1864
2001	2.3	1147	1986
2002 first 18 weeks	2.2	1102	1973

Notes:

1. Rent rebate assessment carried out by Social Security from 1989 on.
2. Data supplied by the Housing Authority with LECG calculations.
3. 2002 figure is grossed up from first 18 weeks.

(v) Other policies

118. There are a number of other States' policies which have an impact on the property sector. Some of these have been mentioned previously. These include; taxes on rateable value (TRV), document duty and treizieme, and grants to first time buyers to cover document duty and treizieme. The essentials of these policies have been covered earlier and they will not be considered further here.

Two which have not been mentioned so far are Dwellings Profit Tax (DPT) and private sector rent control (PSRC).

119. DPT was introduced in 1975 as an anti-speculation measure to prevent people buying and selling property quickly ⁷². If property is bought and then sold within a short time tax is levied on the profit made, after various expenses and fees and an allowance for inflation have been deducted. This should discourage churning of property. No tax is payable if the owner of the house has lived in it continuously for 12 months or has owned the property for 5 years. The aim is to discourage rapid buying and selling of property by, for example, buying houses and not living in them.
120. Those buying and selling residential property have adapted to these rules so there are very few instances of DPT being charged. In the 21 year period 1981-2001 inclusive the Income Tax Authority has dealt with only 35 cases and collected under £100,000 in tax in total. If people do wish to sell property in a short time they simply arrange to meet the exemption conditions, e.g. by living in a property for a year and a day.
121. PSRC might appear to be a major policy instrument but has been little used. It stems from 1976 and is administered by the Cadastre Department. Potentially it applies to; houses occupied by one household where the RV is less than £50; premises used or intended to be used by more than one household, irrespective of the RV; any part of a premises which is used or intended to be used for some other purpose (e.g. a shop), irrespective of RV. It does not apply to property rented from the States.
122. The rent control law is intended to set a fair rent in the event of a dispute between landlord and tenant. A Rent Officer has to set the fair rent and give an independent and impartial judgement. The precise meaning of a "fair rent" is unclear, but discussion with Cadastre Department Chief Assessor reveals it is not an open market rent, but less than this. Fair rents are established by comparison with other controlled properties and with States' gross rents for similar properties. The rent control applies for 5 years after the decision has been made, with an annual review of the rent. The Cadastre Committee itself will sit as an Independent Rent Tribunal as necessary, normally when one party is dissatisfied with the Rent Officer's decision.
123. For the last decade only around 50 properties have been rent controlled ⁷³, so in practice PSRC has not been a major influence on rent levels. The reasons for such a low take-up and impact are unclear. It is quite possible that by setting rent control at levels near to States' rents, which are considerably below economic levels, that tenants realise they would jeopardise the continuing provision of the rental space by getting it under PSRC. It has been suggested that many rent controlled properties which were once on the register have, over time, been sold

⁷² 1975 The Dwellings Profits Tax (Guernsey) Law.

⁷³ Cadastre Department press release, 21st June 2002, states that 50 are presently controlled.

off to owner occupation. This is hardly surprising if rents have been held down at artificially low levels as renting would then be insufficiently profitable for landlords. The inevitable effect would be insufficient maintenance and deteriorating quality of the property, leading eventually to sell off⁷⁴.

⁷⁴ See the analysis of Jersey's rent control attempts, in LECG, *op cit*.

5. Economic Analysis

124. This section covers the simple economics of the housing market and housing policy. It forms the analytical framework within which the questions posed in the research brief are answered. The section is unavoidably technical in parts, but wherever possible jargon has been kept to a minimum. It covers;

- the objectives of housing policy and reasons for intervening in markets
- housing as a market - the demand and supply sides
- macroeconomic factors at work
- microeconomic factors at work
- taxes and subsidies
- application to Guernsey

(i) The objectives of housing policy and reasons for intervening in markets

125. It is useful to set out the various economic objectives that might underlie housing, or any other public, policy. This is because it will later be argued that the economic objectives of housing policy in Guernsey are not transparent nor do they seem consistently applied. In addition the terms of reference for this study require LECG to comment on the *efficiency of the market*. Efficiency can only be satisfactorily judged if the policy objectives and reasons for any market interventions are clear.

126. Policy involving intervention in a market's operation is normally justified either on *market efficiency* or *market equity* grounds. The grounds for intervention have to be clear and defensible as the orthodox presumption amongst the majority of economists is that competitive markets without any significant government intervention produce a welfare optimum⁷⁵. This view of the desirability of freely functioning markets is now widely accepted so that most developed economies now profess to be market based. Such a situation, of little or no government intervention, obviously does not apply to Guernsey's housing sector, so it is important to examine what economic case is made for such intervention.

127. Market efficiency has various dimensions. In the short term it has two sub-parts; technical and X efficiency. In the longer term it is concerned with dynamic efficiency. These terms need explanation.

128. Technical efficiency refers to prices reflecting the cost of production, so that the market is efficient when the prices being paid by consumers fully reflect the resource costs expended in making that product. X efficiency refers to whether

⁷⁵ One general conclusion of welfare economics is that perfectly competitive markets lead to a Pareto optimum in which total welfare (consumer plus producer surplus) is maximised.

the costs of production are minimised. Dynamic efficiency refers to the market's ability to produce innovations and respond in the longer term. In housing terms these notions translate to questions such as; are the market prices (of houses and rents) properly reflecting economic costs? Or are they somehow distorted? Are costs unduly inflated? Does the market adjust adequately and provide what consumers are looking for (and, crucially, can pay for)?

129. The first theoretical justification for intervention in a market, *market efficiency*⁷⁶, is that the free operation of the market concerned does not lead to a welfare optimum because it suffers some form of “*market failure*”, which can only be rectified by some active, and countervailing, government policy⁷⁷. Such intervention could take many forms. It might involve state ownership and operation of the market in the wider social good; or it might involve regulations of one form or another; or it might involve subsidies and/or indirect taxation. Indirect taxes on petrol and cigarettes are often justified on the basis of the wider adverse effects of the consumption of both products, which the market, and private decision makers, do not allow for. Motoring leads to congestion and greenhouse gases, which affect others. Smoking in public leads to passive smoking by others and, even when done in private, leads the smoker to poor health and costs of treatment. This again might (depending on how healthcare is financed) fall on others to pay. In these cases there is a spill over, or wider external effect, from consuming the product which affects others or gives rise to additional costs elsewhere. Technically this is called a market externality. In such cases, it can be argued, these effects need to be taken account of by the prime user. An indirect tax, if set correctly, incorporates this adverse outside effect into the market price and takes account of the wider social costs⁷⁸. Conversely, if there were a positive outside effect then a subsidy to the market price, so lowering it, might be called for. This would encourage consumption and increase the wider social benefit.
130. The market *equity* ground for intervention in a market is much more straightforward and easy to understand. It is simply that the prevailing income

⁷⁶ Though this ought to be called, in a much more common sense way, market inefficiency.

⁷⁷ Three main market failures are identified; *market power, externality and information asymmetry*. These all violate the perfect markets assumption. *Market power* is when a firm or firms come to be able to influence the market unduly and could, for example, set prices independently of costs and make excess profits, though they may not use their market power. Thus, Guernsey Electricity has market power. An *externality* is when the production or consumption of a product has an effect on someone else, and which changes their well being (or welfare). Industrial activity sometimes has pollutant wastes, either gas or liquid, which may be illegally discharged into the atmosphere or rivers. This is a negative externality, or spill-over. *Information asymmetry* is when buyers and sellers are not equally informed. The normal asymmetry is when a buyer is less well informed than the seller. An example would be a complex financial product, such as a personal pension. All these market failures can justify government intervention.

⁷⁸ In the examples here of motoring and smoking there are negative externalities. Thus, in principle, indirect taxes on cigarettes not only help lower demand but also yield revenue which might compensate for the later adverse effects both on the smoker and the passive smokers, by, for example, being given health care.

distribution arising in the economy is felt to be unfair or undesirable and that some income redistribution should therefore take place. The market is efficient but consumer incomes are not ⁷⁹. Normally those with low incomes are deemed worthy of support. Low incomes might arise through circumstance, such as ill health, parenthood or physical disability, or simply through a low, possibly unavoidable, skill level. Thus, market equity reasons might lie behind zero or limited charging for the consumption of key products. The argument is that if people are too poor the state needs to ensure that essential products and services are available and affordable to them. Thus, some medicines and health products in the UK are provided free to mothers, OAPs and those on welfare benefits. More generally the tax and benefit systems may redistribute income (and wealth). The extent of income, and perhaps wealth, redistribution from rich to poor that is deemed desirable is an ethical, and ultimately political, choice. Fairness is not an objective concept ⁸⁰. It is the political process that must try to generate an agreement about what is a fair distribution, not economists ⁸¹.

131. These two quite separate rationales for intervention are important because assessing housing policy impacts should distinguish, firstly, between whether the reasons for intervention are justified and, secondly, whether, given the reasons, the policy has proved effective.

132. There is legitimate debate about the need, and economic basis, for intervention in housing markets. Duff, for example, argues that there are both market efficiency and market equity reasons for intervention in housing markets, writing;

“leaving the provision of housing to the market is likely to lead to an inefficient and inequitable allocation of resources” ⁸².

133. Both the market (in)efficiency and market equity reasons for intervention are given here. The market equity case has already been explained and is simple. It is argued that housing is an essential product and that, in a relatively rich economy, everyone should be able to consume housing of a certain minimum standard. If people cannot afford basic housing then intervention is necessary. One might argue about what the minimum level and standard of housing might be, and how it might be provided, but the general equity argument is widely accepted. This is the basis of income support measures in a variety of contexts. However, Duff also

⁷⁹ Though rather than intervention in market costs and prices some economists would argue that the best policy for income redistribution is simply cash transfers, leaving the individual to decide on what to spend the increased income.

⁸⁰ Although economists have created various equity principles for designing taxes; including the user pays (or benefit) principle and the ability to pay principle, which incorporate notions of fairness.

⁸¹ Though economic analysis can point out the effect of differing levels of redistribution, such as the effect on work incentives.

⁸² L Duff, *The Economics of Governments and Markets : New Directions in European Public Policy* (London : Longman, 1997), p.82.

argues that there are market efficiency reasons for intervention, based on the market failure of externality.

*“Housing externalities are also associated with housing conditions and their impact on a person’s life, which then impacts on other people’s lives. For example, health, crime, fire safety and educational achievement can all affect the quality of life. Good housing conditions can have widespread effects ...a free market will lead to an inefficient allocation of resources”*⁸³.

134. Both of these arguments are persuasive, though what really matters are the policy implications that are drawn from them. In the case of a market equity based policy (which aims to alleviate poverty), there are various ways of achieving more equity. The market might be allowed to build and provide all housing, but the state might give income support to the poor for spending on housing provided by the market. Alternatively the state itself might provide such housing directly. In the case of a market efficiency based policy (to counter externalities), good housing conditions can be fostered and created by having minimum building standards and planning controls applied to all new housing. Existing housing can have similar environmental legislation which specifies it be fit for human habitation. Most developed countries use such regulations to ensure minimum standards of housing.
135. However, the States of Guernsey may be going further than Duff here and sometimes seems to identify good housing solely with owner-occupation. Behind this seems to lie a market externality reason for encouraging owner-occupation - that some wider social benefits result from owner-occupation. If this were true then some subsidy encouraging owner-occupation would, in principle, be sensible. However, it is hard to know what the benefits might be which arise specifically from owner-occupation. An argument might be that “*good housing conditions*”, including repair and maintenance, are more likely when property is in private ownership. It might then be argued, as Duff does, that there are consequent health, crime and educational achievement benefits arising from such “*good housing conditions*”. This type of private ownership argument has been made in the past to justify council house sales to their tenants in the UK. However, even if this is correct, it does not explain why owner-occupation, rather than private renting, is preferable on externality grounds. Both involve private ownership. A private landlord, in the absence of rent control, will have incentives to maintain property and provide “*good housing conditions*”, providing he can rent it out at a market price.
136. I do not find an externality based market efficiency reason for supporting owner-occupation, as opposed to all private ownership, convincing. If “*good housing conditions*” are associated with private ownership, then private renting should be encouraged as much as owner-occupation. However, I do not find even the argument for private ownership very convincing. There is no reason social housing cannot be properly managed and maintained. “*Good housing conditions*” need not be the preserve of private owners. Conversely “*bad housing conditions*”

⁸³ *Ibid.*, p.81.

need not be the preserve of public ownership. Recent evidence suggests that poor housing conditions are not linked in a simple or straightforward way to public or private ownership⁸⁴.

137. In contrast to market efficiency arguments, a market equity reason can be used to justify intervention in housing markets if the income distribution is very unequal. This is the basis of social housing and of direct income support for housing expenditure. Housing of some minimum standard is a necessity and a “need”. If the household cannot afford to meet that need, then government intervention is required. This is essentially an anti-poverty provision. There will, however, still be room for considerable debate about where “need” begins.
138. The point of all this is that there seems to be some confusion amongst people, including States’ officials, interviewed for this report about precisely what the economic objectives of housing policy in Guernsey are. Most are agreed that a market equity reason exists and that the States needs to support residentially qualified people with genuinely low incomes, though there is a good deal of difference about how to define those in need. However, many go further to argue that owner-occupation is the preferred and best form of housing and that the States needs to encourage, and support, owner-occupation. This sort of argument underlies the view that the vast majority of Guernsey locals “ought” to be able to buy their own homes and that the States needs to assist them in that, either through general interest tax relief, preferential loans or requiring low cost homes to be built. I find little economic merit in such a view.

(ii) Housing as a market - the demand and supply sides

139. Putting to one side, for the moment, whether, and how, the States should intervene in the housing market, it is clear that market forces do dominate housing decisions in Guernsey. House prices and private rent levels rise, and fall (at least in real terms), together over the years and consumers make their housing choices accordingly. This is the case throughout the housing sector, where the majority of the population make decisions about what type of property (its type, size and cost) to occupy. Frequently, when buying, this means making major financial commitments.
140. From an economic perspective, although housing is widely seen as a special case and an essential requirement or need for all, it is little different in economic terms from other products and services. Various characteristics are sometimes put forward to suggest that housing is different and not amenable to economic analysis. None of these stands up to scrutiny.

⁸⁴ A recent report by the Social Exclusion Unit, *A National Strategy for Neighbourhood Renewal*, found that many poor neighbourhoods were not in the typical stereotyped areas, but many were privately rented or owner-occupied dwellings.

141. Housing is long lived but it shares this characteristic with many other long lived durable goods, such as commercial property, plant and machinery and consumer goods such as motor vehicles, TVs and washing machines. It is differentiated, so that no two houses are absolutely identical in terms of location, interior fittings and decor but it shares this characteristic with many other differentiated consumer goods, such as the services from cinemas, restaurants and holiday venues. Housing is very expensive but shares this characteristic with some financial products, such as pensions. It comprises both second hand and new property, which compete within and between each other, but it shares this characteristic with motor cars, caravans, boats and much capital equipment. In short basic demand (buyers) and supply (sellers) analysis is as applicable to housing as it is to other goods. Demand and supply factors affect the size, composition and quality of the housing stock in Guernsey and the choices individuals can and do make in its consumption and production. Although Guernsey has a large number of policies which impact on and constrain the operation of the market, housing is primarily allocated by market based forces⁸⁵ and movements in market prices are determined by the interaction of demand and supply.
142. On the demand side, the main factors affecting household choices include individual *household incomes, prices, tastes* and the *population size*.
143. With household *incomes*, it should be self evident that as incomes rise consumers tend to buy more property space and/or space of a higher quality (for example, in a better locality)⁸⁶. They might first try to improve their existing property but tend eventually to move. Owner occupiers try to move up market. Private renters will similarly seek to move up market or become owner-occupiers. For those in States' rental, as income rises they may initially lose entitlement to rent support, but eventually may chose to move outside the States' sector⁸⁷. If incomes rise sufficiently some consumers may be able to afford two, or more, homes. Conversely as incomes fall the reverse changes tend to occur and consumption declines.

⁸⁵ Thus one would expect demand for housing, D_h , to be modelled econometrically in the following way; $D_h = f(Y, p_h, p_1, \dots, p_n, T, P)$ where Y = consumer income, p_h = some measure of the price of housing, $p_1 \dots p_n$ = the prices of other relevant goods, T = consumer tastes, and P = population size. The supply of housing, S_h , would be modelled; $S_h = f(p_h, T_e, C, O)$ where p_h = the price of housing, T_e = technology, C = costs and O = objectives of suppliers. It is possible to estimate equations based on these general relationships, but this requires considerable amounts of time series data and has not been done for this project. One consequence is that precise quantitative assessment of the impact of particular factors cannot be done. Qualitative assessment only can be made.

⁸⁶ Note that this does not mean that all consumers do this, but that some do. It is the marginal consumers which respond to income changes and which move the market to a new equilibrium. This point about marginal adjustment applies equally to all the factors on the demand and supply sides, such as price. Markets adjust through the actions of a few. Quite clearly only some consumers at any one point in time are actually changing their housing decisions.

⁸⁷ Though the States does face a problem of people not moving when their income might enable them to do so. This is because States rents are subsidised- see later- and not at economic levels.

144. Consumers distinguish between temporary and permanent incomes in housing decisions. Expectations can be important, about, for example, future income and the stability of future income ⁸⁸, and this will also affect choices on consumption (the type and size of property inhabited) and on financing (the rent/buy decision and the size of any mortgage taken out). There is plenty of evidence to show the links between the general economic cycle, incomes, expectations and the house price cycle. But, essentially, as incomes rise, so do the standards of accommodation that can be afforded, both in size and quality.
145. The *price* of housing even more directly affects demand . This is true for both house purchase and rental. As property prices rise demand falls and vice versa. Price rises make longed for property “out of reach”. Price is normally the equilibrating factor in markets, which brings demand and supply into balance for different types of property. The relative prices of property change. The same effect happens in the rented sector. As rents become more expensive some consumers may move down-market and consume less and worse property space. As rents fall some will move up-market and consume more and better property space. Note again that not all consumers do this, but some do, and that is what moves the market and market prices ⁸⁹.
146. *Many other prices* can also, on their own, affect demand for property. These other prices will be the prices of goods and services that are substitutes or complements to the specific property type being analysed ⁹⁰. Where complementary products are involved, rises in complementary product prices lower demand. With substitute products, a rise in a substitute product price will raise demand.
147. If we are considering house purchase, particularly important other complementary prices are; the size of transactions costs associated with purchase and the on-going prices of goods and services associated with the property. Transactions costs have to be paid when buying. They include any estate agency fees (if also selling), lawyers fees, treizieme and document duty. As these prices fall this tends to increase demand. As they rise this tends to lower demand for property. On-going complementary prices will include any property taxes ⁹¹, utility costs ⁹², repair and maintenance costs, insurance costs and so on. These can, and do, influence house choice. For example, historic properties and those with unusual

⁸⁸ Though insurance can protect against income instability.

⁸⁹ It was noted earlier that just 5% of the local market housing stock is bought and sold each year. These movers set current market values.

⁹⁰ Substitute products are those which compete with the property type under examination; for example, owner occupation and renting. Complementary products are those that are consumed jointly with the property type; for example, owner occupation and mortgage loans.

⁹¹ Occupiers and TRV rates.

⁹² Domestic water supply by the States Water Board is largely unmetered and for these properties water charges are dependent on the rateable value of the property. A banding system is used, with higher charges for higher RV properties.

architecture may require considerable annual upkeep, which will deter many buyers. On going and recurrent costs enter the demand equation, as much as the upfront buying costs. Indeed the on-going costs can be numerically as, if not more, important. Where houses are purchased with mortgages, as most are, then financing costs are especially important- both direct interest rates being paid and any tax reliefs. With rental property a similar set of “*other prices* “ can be important, perhaps particularly how the rental arrangement with the landlord deals with property taxes⁹³.

148. The *tastes* of the population refer to the underlying preferences of consumers. Over time, these can shift quite independently of any other factor, so that particular types of property, in terms of location, age, design and facilities, can become more or less fashionable and in demand. No doubt Guernsey has geographical areas which have been in and out of demand over the decades, whilst living in older converted buildings also seems to be becoming more fashionable.
149. *Population* size and change affects the size and composition of demand, as detailed earlier. Smaller household sizes means demand for smaller units rises. The household characteristics also affect the type of demand, so that, for example, more elderly households stimulates a demand for sheltered and similar accommodation.
150. The main immediate drivers of demand for housing are consumer incomes, property prices, on-going property related prices and interest rates. These are the most quantitatively significant.
151. On the supply side the supply of properties is mainly affected by prices, costs, technology, and the objectives of companies operating in the housing sector. Rising *prices* are indicative of a shortage of the property type and, in a freely functioning market, supply will increase as a consequence. This is because a profit can be earned from so doing. Thus as house prices rise both more old and new stock will, in time, come onto the market⁹⁴. Old stock will come from people wishing to trade down or out, so releasing property space for others. This is apparent in Guernsey with a number of hoteliers wishing to leave their industry and release their space for alternate private housing use. No doubt some existing home owners in Guernsey have also traded down or out to take advantage of the increase in property values in the 1990s. Indeed, it is not unrealistic to expect that as Guernsey house prices rise that some people may chose to leave the island entirely to live in lower cost areas in the UK or Europe. New stock will come

⁹³ This paragraph deals with complementary products to house purchase or rental, but substitute product prices also affect demand for property. Thus the demand for owner occupation is affected by the price of houses, but is also affected by the price of alternative accommodation, principally the price of renting. If these prices get out of line, perhaps because there has been a big investment in properties to rent, then consumers will switch from owner-occupation to renting. At the margin such switchers bring relative prices back into equilibrium.

⁹⁴ This abstracts from considering lags which may be long.

from builders and developers, who will have more incentive to locate land and plots zoned for housing, or properties that can be redeveloped.

152. An important element here is competition between property developers and builders which ensures that any supply response is reasonably quick and not excessively priced. The degree of competition in house building and property development in Guernsey has not been investigated in this report, but the recent report on building costs is relevant here ⁹⁵. This suggests that Guernsey building costs are significantly above build costs in comparable parts of the UK and Jersey and that one factor is a lack of competition in certain sectors. There may therefore be competition problems which have aggravated the increase in new house prices, through the exercise of market power in land ownership, materials, transport of materials and construction ⁹⁶.
153. The *costs* of supply, for new houses, are clearly important. Any change in costs, or inefficiency in cost control, affects supply. This relates back to whether differences in house building costs are justified or not.
154. The *technology* of building does alter and can alter supply and cost possibilities, though only over the longer term.
155. The *objectives* of firms involved in supply can be important. Normally firms are profit motivated, so that prices reflect costs, including an element of profit. However, some agencies, such as Housing Associations, Trusts and other providers of social housing, are explicitly non-profit and this can influence supply decisions.
156. The main drivers on the supply side are prices and costs. Public policy which affects demand and supply factors, such as interest rates, taxes, subsidies, land availability and prices, and so on, are also very important, though these are best thought of as non- market factors.

(iii) Macroeconomic factors at work

157. There is a close relationship between the overall (macro) economy and the housing sector. This works in both directions. The macroeconomy affects the housing sector and vice-versa. It should be apparent from the preceding section that a number of factors which are key determinants of housing demand and supply are factors which are macro in scale.

⁹⁵ Knowles Management and the Economic and Strategic Adviser, *op cit*.

⁹⁶ If house building itself is competitive, and earning normal profit only, then the increased real price of houses over the last 20 years must be going to earlier in the supply chain- either materials suppliers or land owners.

158. On the demand side, the level of consumer income, earned and unearned, is a key element driving demand. This is not just the current level of income, but its likely growth and stability. These are factors that commercial lenders will look at in determining the risk of granting loans. Where the macroeconomy is growing relatively quickly but in a sustainable and stable way, then current income can be enhanced by expectations of the growth in income. With mortgage loans typically being 20- 30 years in length rather greater laxity can be shown to a loan which stretches the current income of the borrower because the income position can be expected to improve through time. Closely related to this is employment, or more accurately unemployment, risk. If the macroeconomy is run, or allowed to run, in a very cyclical manner then unemployment risk is high ⁹⁷, which will make both consumers and lenders more cautious in their spending and lending decisions. Similarly the level of interest rates plays a critical part in borrowing decisions by consumers. The level of interest rates is determined almost wholly by the macroeconomic considerations of the central bank, as it determines monetary conditions across the whole economy for both consumers and businesses. The interest rate has implications for businesses as much as consumers. The level of interest rate also has implications for international financial flows and the exchange rate. A careful reading of the pronouncements of central banks shows such considerations loom large ⁹⁸.
159. On the supply side, the extent to which an economy is run close to capacity working will also have an impact on the construction industry, including house building. Where public and private housebuilding investment is out of synch with capacity, cost pressures become evident. If an industry is being run at, or very close to, capacity cost inflation is likely. Conversely, where an industry is being run below capacity, cost inflation will be less intense and competitive rivalry stronger. Where the new build of houses is less competitive with the existing stock, house price inflation is more likely.
160. The housing sector's performance can, in return, influence the macroeconomy. Construction activity is private investment and adds to total demand in the economy. It can make up 5-10% of total demand. Similarly, housing is the principal asset that private households own, either in full or in part ⁹⁹. As such, changes in the value of that asset can influence consumption spending, either directly or through borrowing. This will be examined in more detail later.

⁹⁷ Particularly for some industries and occupations.

⁹⁸ The Bank of England's monthly MPC meetings have their minutes published. In contrast, the European Central Bank's fortnightly meetings are not published.

⁹⁹ The other main financial asset household are pension rights and policies. These are not as tradable as houses, nor do they form such easy collateral.

(iv) Microeconomic factors

161. Besides macroeconomic factors affecting the housing sector and housing decisions, there are a number of specific factors particular to the sector, which also affect it. These are the microeconomic factors.
162. On the demand side, chief among these are the actual price of houses, the prices of relevant complementary and substitute goods, and government policies which affect property. For Guernsey, such factors include; the level of document duty and treizieme, taxes on rateable value and interest tax relief.
163. On the supply side, key factors include; the costs of production of new houses and policies affecting property supply. For Guernsey, such factors include; the planning process, the targets for planning approvals and private sector rent control.

(v) Taxes and subsidies

164. Given that taxes and subsidies can play such a large part in influencing demand and supply, it is important that their general effects are set out here. This is because these general effects will occur when specific housing taxes and subsidies are considered later.
165. Taxes are not just revenue raising devices but can also be used to influence behaviour. Where they are a simple revenue raising measure the conventional wisdom today is that they should be neutral as regards behaviour, i.e. they should not promote or discourage one form of behaviour as opposed to another. As an example, on this criterion, a general ad valorem tax is preferable to a specific tax as it leaves the relative prices of goods unchanged and so will not cause consumption bias.
166. However what all taxes do is to discourage demand and consumption. The precise effect will depend on the tax being considered. Direct income taxes lower post-tax disposable income and will, for almost all products, decrease demand and consumption¹⁰⁰. Indirect taxes will have the same effect. At its simplest, they

¹⁰⁰ Except for goods with a negative income elasticity.

will raise the price of the good on which the tax is placed and will, consequently, lower the demand for it ¹⁰¹.

167. Thus all taxes on property have as their general effect the lowering of demand for property. The exact quantitative effects can be difficult to compute, but the direction of effect is unambiguous.
168. Subsidies have precisely the opposite effects and are introduced for the opposite reasons. They are used where the body making, and financing, the subsidy wishes to encourage production and consumption of a product. Thus private firms may subsidise new products and sell them at below cost price in order to gain a market foothold. For example, UK mobile phone companies subsidised hand sets for some time to create momentum in sales and rental contracts and to create a critical mass of users ¹⁰². Similarly, the two UK subscription television companies, BSkyB and the now failed ITV Digital, subsidised the set top boxes needed to access such services, and indeed gave them away free for some time, to encourage subscriber growth of their satellite and terrestrial television services. Such cross subsidies are quite common in business.
169. Governments have been particularly active users of subsidies, for example, to maintain production in declining industries such as agriculture, coal mining, aerospace and airlines. The general economic effect of a subsidy is to lower the relative cost, and price, of the good being subsidised and this leads to increased demand ¹⁰³. In turn this leads to increased prices. All subsidies to property will have this effect. Frame and Wall, in reviewing the economics of housing subsidies conclude ¹⁰⁴;

“Subsidies also increase the cost of homes for several reasons. First the reduction in the relative cost of housing leads families to demand larger, more comfortable houses. Second, part of the housing subsidy is likely to be captured by those supplying housing related services... Similarly, the demand for all types of housing will lead to rising demand for existing as well as new homes. The higher demand...will allow owners to increase the resale price of their homes”.

170. Furthermore, subsidies by lowering the relative cost of the good being subsidised also increase the relative cost of all other goods. Other types of consumption fall.

¹⁰¹ Technically, indirect taxes have both price and income effects. The precise effect of such a tax on the market output depends on the price elasticities of demand and supply.

¹⁰² According to the Competition Commission they continue to subsidise them, and monthly contract charges, from excessive call termination charges. See, *Competition Commission news release 39/02*, 23 July 2002.

¹⁰³ Unless demand is completely price inelastic. In some cases the effect has been larger than expected. Arguably, for example, EU fishing subsidies have increased demand so much that a crisis in EU fish stocks has been the result.

¹⁰⁴ W S Frame, L D Wall, Financing Housing through Government Sponsored Enterprises, *Federal Reserve Bank of Atlanta*, First Quarter 2002, pp.29-44.

Subsidy will increase consumption of the good being subsidised, but at the expense of economic activities that are not subsidised. Producers of the subsidised product gain as the market grows, but producers of other products lose. At the macro scale it has been argued that permanent subsidy can lead to over-investment in the sector concerned, with attendant other macro consequences.

(vi) Application to Guernsey

171. Without a fully specified econometric model of the Guernsey housing sector, which makes concrete the factors of footnote 79 into equations for both the demand and supply sides, it is impossible to determine the exact contribution of different macroeconomic and microeconomic factors to the house price inflation of recent years. However, in the absence of such a model, informed estimation can take place.
172. Returning to the basic house price statistics of Table 3, the average house price in Guernsey, in nominal terms, has risen from 1981 to 2001 by some 800% from £28,000 to £226,000. However some of this increase is simply general price inflation. The RPI has increased in the period by over 180%. General price inflation is almost wholly a macroeconomic phenomenon and related to the choices made, and success achieved, in managing the economy. Although a detailed examination of Guernsey's inflation record, and its causes, has not taken place, it appears to be largely demand pull inflation arising from close to capacity working. If true, almost one quarter of the nominal house price increase over the last 20 years can be immediately attributed to a macroeconomic factor.
173. Tables 3 and 4 also show that Guernsey has been considerably less successful in achieving low price inflation than the UK. Whereas retail prices have risen in Guernsey since 1981 by over 180%, they have risen in the UK by only 124%, almost one third less. This gap of nearly 60% in the 20 years, is 3% per annum¹⁰⁵. This gap in relative inflation performance continues today. Guernsey's annual rate of inflation, as measured by the RPI, at the end of September 2002 was 3.9%¹⁰⁶, whereas the September RPI rate for the UK was 1.7%, a gap of 2.2%. The inflation gap has been growing in recent years.
174. This relatively poor inflation performance in Guernsey has had another much more significant effect on the housing sector and house prices. This is via the effect on real interest rates. This report has already tabulated how nominal interest rates have declined since peaking in the late 1980s. To the extent that some consumers suffer money illusion they will have increased demand in response to this change.

¹⁰⁵ As a simple arithmetic average. At the more appropriate compound rate it would be nearer 2%.

¹⁰⁶ Advisory and Finance Committee, Guernsey Retail Prices Index, *Press Release*.

175. However, much more importantly, interest rates obtaining in Guernsey are set in the UK by the UK monetary authorities, and they are set with regard to UK economic conditions and objectives, not those of Guernsey. Nominal interest rates are set to create a monetary climate which is felt to be appropriate for achieving the macroeconomic objectives of the UK government. The general consensus now is that low and stable prices are a precondition for sustainable long term growth and the Bank of England has therefore been set its RPIX target of 2.5% (which it is currently undershooting as annual RPIX growth is, at September 2002, 2.1%). However, the fact that Guernsey's inflation rate has been continuously above that of the UK means that the level of real interest rates in Guernsey has been below that in the UK for the last 20 years.
176. As an example, suppose that Bank base rate in the UK was 4.0% and that RPI there was 2.0%. This would mean real interest rates in the UK were 2.0% plus whatever the margin was for the particular type of borrowing/lending being undertaken. This might, in the circumstances, be felt appropriate to deliver UK macroeconomic objectives. But, if Guernsey's inflation rate was 2 % higher than that of the UK (as it has been for the last 20 years), the real interest rate in Guernsey would be 2% lower than in the UK. With a 2% real (base) interest rate in the UK, the real rate in Guernsey would be zero.
177. This wedge between UK and Guernsey real interest rates is widened still further by the continued existence of interest tax relief in Guernsey. Over the past 20 years interest tax relief has been scaled back in the UK and was abolished two years ago- see Annex 3. Interest tax relief has been unchanged throughout the period in Guernsey.
178. The effects of this are substantial. Consider the position on interest rates as it stands at present (actually for the end of September 2002, as this is the latest date for the Guernsey RPI figure). The UK base rate is 4.0%, with a standard variable rate mortgage being widely available at 1.5% above this. There is no tax relief and, with RPI inflation at 1.7%, the effective real post-tax interest rate on mortgage borrowing in the UK is therefore 3.8% ($4.0 + 1.5 - 1.7$). In contrast in Guernsey the same 5.5% standard variable rate mortgage costs the borrower 20% less after taking account of the tax relief¹⁰⁷. This gives a post-tax nominal cost of 4.4%. Guernsey RPI growth is 3.9%, so the effective real cost of borrowing, to finance house purchase, is just 0.5% in Guernsey ($4.4 - 3.9$). So the real post-tax interest rate for mortgage borrowing is, presently, 3.8% in the UK, whilst in Guernsey it is just 0.5%.
179. This is "cheap money", and much "cheaper money" than in the UK, and it is quite possible that at various times in the last 20 years the effective real cost of borrowing in Guernsey has been even lower, if not actually negative at times. Such "cheap money" conditions in Guernsey will inevitably fuel housing demand, as well as the wider consumption of consumer durable goods financed

¹⁰⁷ Ignoring principal repayments.

by borrowing. However, the key difference between housing and other consumer durables is that the price of other consumer durables, such as cars and white goods, is set largely in the UK, their supply is elastic and they are imported into Guernsey. Their price will not get bid up. In contrast the Guernsey housing supply is fixed in the short term, and can only be added to by new build, so it is inevitable that the “cheap money” era will have contributed significantly to rising real house prices.

180. It can be argued that the management of the Guernsey economy has accepted, tacitly or otherwise, a different set of objectives to those set by the UK government. On this argument, an inflation rate a few percentage points higher than the UK might be a price worth paying for a more buoyant and faster growing economy. However, the recent Advisory and Finance Committee’s Policy and Resource Planning Report seems to accept that this is incorrect and that higher inflation in the longer term will damage Guernsey’s competitive position and economic performance¹⁰⁸. I fully agree with this.
181. For the last two decades, and more, nominal monetary conditions in Guernsey have been determined off the island. The poor inflation performance of the Guernsey economy has meant that real monetary conditions have been slacker than in the UK. If Guernsey policy makers wish to maintain a similar overall macroeconomic stance to that of the UK and other competitors with similar inflation targets, then fiscal policy must be aligned more with the UK. More particularly, if monetary conditions on the island are looser because of current high inflation then a compensatingly tougher fiscal stance would need to be adopted to bring inflation down and leave real interest rates at the same level. This line of thinking raises some difficult and controversial, but absolutely key, questions for the management of the Guernsey economy and the budgetary position adopted by the States.
182. Guernsey is in the position that member countries of the euro-zone find themselves in. It has a common currency it shares with other countries (in this case sterling and the UK), but its interest rates are set by a central bank over which it has no control. Furthermore the central bank will be concerned with a much wider set of issues than those obtaining in any one particular country. This raises some fundamental questions about the role of fiscal policy and fiscal harmonisation when a centrally set interest rate exists. However, the key point as far as Guernsey housing is concerned is that real interest rates have been low on Guernsey for the past 20 years and that this “cheap money” era will have undoubtedly impacted on house prices.
183. A further macroeconomic factor has been operating. This is the rate of economic growth achieved by the economy, as it has fed through into earnings increases of a similar magnitude. Such rises in income are an important macroeconomic factor in raising demand for housing. The Table below shows economy wide growth and average earnings growth in the last decade.

¹⁰⁸ Policy & Research Unit, *op cit.*, p. 18.

Table 20 : Nominal gross domestic product and average earnings growth, 1992-2001

<i>Year</i>	<i>GDP growth</i>	<i>Average Earnings growth</i>
1992	2.6	9.3
1993	1.2	6.2
1994	5.3	6.8
1995	6.7	2.0
1996	8.4	4.2
1997	9.9	5.5
1998	7.2	6.4
1999	6.8	7.6
2000	7.5	7.8
2001	10.9	8.5

Notes

1. GDP data calculated from 2002 Sustainable Guernsey, *op cit.*, p.56
2. Average earnings data supplied by ESU. LECG have already noted the uncertainty attached to later year estimates.

184. The annual average nominal economic growth is 6.7%. The annual average nominal average earnings growth is 6.4%. This is as expected if earnings remain a constant share of GDP. Experience suggests factor shares of GDP change relatively slowly. As RPI inflation has been 3.4% over the last decade, so annual average real increases in income have been around 3%. This is a little higher than the UK, where the long run rate of real growth of the economy and earnings, based on productivity change, has been around 2.5%. This slightly higher rate of real income growth will have encouraged housing consumption.

185. However, a further difference between the macroeconomic performance of the Guernsey and UK economies has been in the levels of employment and unemployment experienced. By international standards Guernsey has had effectively full employment over the last two decades. Since 1999 the numbers of people registering for unemployment benefit has been below 100, or 0.3% of the

working population. The last period of high unemployment in Guernsey was during the early to mid 1980s, when even in the winter peak it did not reach 1500 persons or under 5 % of the working population. The subsequent period of mild recession in the early 1990s was even more benign.

186. This employment stability has reduced the default risk of commercial lenders and so has contributed to the growing income multiples that lenders have been prepared to advance. The prospects of continued full employment has encouraged lenders to advance increasing amounts based on the disposable income of applicants. It is no surprise that income multiples, or the percentage of net disposable income, that lenders will lend are higher on Guernsey than in the UK.
187. Running the economy at, or close to full capacity, may have generated growth but it has been coupled with inflation. However, a final macroeconomic consequence of doing this is that public and private construction industry capacity can easily be overwhelmed. The Board of Industry report found that the industry had been running at full capacity and in understanding Guernsey's high build costs concluded that;

*“ the greatest cost factor was found to be “inflationary costs” associated with an overheating construction industry”*¹⁰⁹

188. In those circumstances it seems very likely that the disciplining effect that new house build and pricing can have on existing house prices is more muted.
189. It is the combination of these macroeconomic factors; general inflation, falling nominal interest rates, low real post-tax interest rates and consequent “cheap money”, real average earnings growth and low unemployment risk, that has contributed to rising mortgage and housing demand on Guernsey. Given these conditions, and a construction industry working at full capacity (so that new housing costs and prices have been less able to play a disciplining effect on second hand values), it is hardly surprising that general house prices have grown substantially¹¹⁰.
190. At the microeconomic level there have also been some changes which have added to demand and which are worthy of comment, though their quantitative effect is almost certainly less than the macroeconomic factors.
191. The changes in document duty in the last few years and the proposed abolition of treizieme this year both represent reductions in the taxes on property transactions. Economic theory is clear that the effect of this will be to increase the demand for property. This can only increase property prices. The quantitative effect of the document duty change is likely to have been quite small as these taxes represent a small part of the costs of house purchase, compared to the purchase price and any

¹⁰⁹ Knowles Management and the Economic and Strategic Adviser, *op cit.*, p.vi.

¹¹⁰ Thus echoing the conclusion of Drivers Jonas some 4 years ago that the island's house price inflation had “*in the main.....been driven by the strength of the Island's economy and the availability of mortgage finance*”, Drivers Jonas, *Belgrave Vinery- Feasibility Report; Final report*, April 1998, p.11.

on-going mortgage costs, but there will have been an effect. If there is a concern to keep property price rises in check these policy changes look misguided.

192. The justification for reducing document duty was to align document duty with other lower cost regimes, but it is unclear why doing this is needed. Another reason given was to increase mobility, but Guernsey already forms one geographic market so geographic mobility should not be a concern. Reducing these taxes gives the wrong signal to house buyers and sellers.
193. The abolition of treizieme has been tied to the proposed changes to the RV regime. But if treizieme is abolished as planned this year it will lower property taxes before any compensating increase in TRV. Again this looks misguided. The abolition of treizieme should await the implementation of change to the TRV regime, when TRV needs to be increased to yield at least the same level of tax as the existing TRV regime plus the loss of revenue from treizieme. The fact that TRV has been increased by less than the rate of inflation since 1995 will also have added to demand for purchase of property.
194. The States home loan scheme is analysed further in the next section, but as a subsidy to some potential buyers it too can only have helped increase demand with the attendant consequences for prices.

6. Questions Set in the Terms of Reference

195. This section addresses the specific set of questions and issues posed in the terms of reference. The majority of these questions and issues have been covered earlier and, where that is so, reference is simply made back to the relevant part of the report which deals with them, rather than repeating the material in full.

(i) The operation and efficiency of the Guernsey Local Housing Market.

196. Economic efficiency has a number of meanings, see paras.127-128¹¹¹. As regards technical, or price, efficiency, prices in the local and private rented market, do appear efficient, in the sense that they do adjust to changing economic conditions. This is evidenced by the price flexibility of the last 20 years. Prices of houses and private rents have gone up and down in the 1981-2001 period.

197. Table 3, for house prices, shows price rises have dominated the period, but there was a decline in nominal prices from 1989-1993 and a decline in real prices for a much longer period, from 1989-1995. Table 11, for private rents and for 1989-on only, shows no decline in nominal prices, but when deflated by general inflation (the RPI), shows real rents changing little since 1996 and declining in real terms from 1999 to 2000. The relative price between buying and renting has also changed in the period- see para. 77. This suggests that prices in these parts of the housing sector are adjusting to reflect underlying economic conditions. The existence of private sector rent control, which might affect price adjustments, is unlikely to have had much of an impact as it has applied to a very small number of properties.

198. In contrast States' rents are not efficient, in the sense of reflecting economic costs, as they are now substantially below economic levels- see paras. 103-111, and have simply been indexed up in value, in line with the RPI, in recent years.

199. However, there is also an extensive system of subsidies and taxes applied to the housing sector which is distortionary of demand. The main subsidies are tabulated below.

¹¹¹ *Social* efficiency is much wider and is not the meaning used here.

Table 191 : Estimated subsidy levels to Guernsey households, 2001 (unless otherwise stated).

<i>Policy</i>	<i>Numbers of households benefiting</i>	<i>Total number of households in relevant tenure group</i>	<i>Percentage of total numbers in category receiving a subsidy</i>	<i>Total cost of subsidy, £m.</i>	<i>Average annual value of subsidy per household receiving it, £.</i>
Mortgage interest tax relief (in 2000)	13364	16725	82	9	675
	9278	16725	57	9	970
States' Home loans scheme	133 new loans that year; unknown total no. with loans	n/a	n/a	1.3	5000 for new loans; 3100 for all holders
States' rents below market level (in 2002)	2151	2151	100	10.3	4800
Rent rebate to States' tenants (in 2002)	1102	2151	51	2.2	1975

Notes

1. Data and calculations come from previous sections.
2. Two mortgage interest subsidy calculations are given. The first is from the Income Tax Authority data and overestimates the numbers receiving relief as it cannot distinguish between those with a mortgage and those without. It therefore underestimates the average subsidy received per mortgage claimant. The second is a calculation combining tax data with a survey result from the poverty survey- see para. 92. This second calculation seems more reasonable for the reasons given previously.

200. It can be seen that a total of approaching £25m is currently being spent by the States, either directly or indirectly, to subsidise the housing expenditures of the population. This is split in value roughly equally between owner-occupiers and States' tenants. No subsidy at all goes to those households living in private rented accommodation. Over 11,400 households benefit. This is over 50% of the total number of households on the island, and is 55% of total households if all open market households are excluded. The subsidy per household is especially high for those having States' Home Loans and for all States' tenants.

201. It is unclear on what basis these expenditures are justified. This raises the question of the objectives of Guernsey housing policy. I have pointed out that there is no basis, in my view, for a *market efficiency* reason for the subsidy of owner occupation- see paras. 125-138 . Even if the States believe that there is such a market failure and that private ownership of property is to be encouraged, it is unclear why only owner occupation is subsidised, through MITR and the SHLS, and not also those renting privately.
202. If existing policy is to be justified on a *market equity* basis, the current distribution of the subsidy does not correspond to conventional notions of fairness. A market equity basis of policy would normally be interpreted to mean that the poorest sections of society should be assisted in their expenditures, in this case on housing, and that all poor people, however that is defined and irrespective of their housing tenure, would be helped. Income transfers would be from the richer to the poorer households. This is not what is happening. Only a small minority of Guernsey households are thought to be poor ¹¹², yet a majority of them, perhaps up to 55%, are receiving a housing subsidy.
203. It is hard to see how owner occupiers fit most interpretations of poorer households. They are typically the most well off in society. That is why commercial lenders will lend to them. One of the findings of the poverty survey was that people with high monthly mortgage or housing loan payments were least likely to be poor ¹¹³. Furthermore interest tax relief is unlimited, so those buying the most expensive homes with a mortgage (and indeed even second, third or investment homes) and whom one would therefore expect to have the highest incomes, receive more subsidy absolutely than other owner occupiers. We have found that the average household income of owner occupiers is significantly greater than those in States' property - see footnote 51. Whilst a small number of owner occupiers with a mortgage undoubtedly are poor, there seems no market equity case for subsidising Guernsey taxpayers buying very expensive property, with a mortgage, especially property overseas. There can be no equity justification for that.
204. Similarly the States' Home Loans Scheme, if it is to be justified only on a market equity basis, does not have the level of income of the applicant as a criterion on which to accept applications or to allocate loans. Loans are given seemingly irrespective of the income of applicants. Allocation will have an arbitrary element, as regards income poverty, to it. High and low income applicants, so long as they are first time buyers, can receive loans and be subsidised. Such subsidy is inevitably attractive and is why, when in 2000 and 2001 loans were given on demand, so many sought them. It is why a waiting list exists now. There is no guarantee that SHLS loans are being distributed according to any equity principle, especially as funds for the scheme are limited.

¹¹² The Townsend Centre for International Poverty Research, *Report on Phase Two*, 2002, found 16% of households could be called poor.

¹¹³ *Ibid*, p.3.

205. In contrast it is relatively easy to see a market equity reason for supporting States' tenants, whose average income level is well below the whole island average. However, it is not easy to understand why all those households with below average incomes who are renting in the private sector, do not receive an equivalent subsidy to that offered by the Rent Rebate Scheme to States' tenants. They may be equally poor. The Townsend poverty survey found that poor people are more likely to rent their accommodation, both privately and with the States¹¹⁴. This discriminatory treatment violates the equity principle that people in the same financial circumstances should be treated equally.
206. Current taxes on property are equally distortionary. The main ongoing tax is TRV and occupiers' rates, both of which are based on the RV system. It is recognised that this system, which is based on 1947 rental values, is wholly out of line with current property values. Taxation receipts from this source are unlikely therefore to conform to any sense of fairness, related to current economic values of property- see later. To the extent that current property values are correlated with household wealth, and income, then property taxes are not related to the ability to pay.
207. States' microeconomic policy therefore has an impact on the operation of the housing sector, though this is of less importance than the macroeconomic influences, yet the basis for this micro policy appears confused. If policy is based on market equity reasons for intervening, the present tax and subsidy systems are ill targeted and distortionary. As previously argued, the general effect of all subsidy schemes is to increase consumption and raise market prices. It is vital therefore that subsidy schemes are well thought out if they are not to be blunt and unduly distortionary instruments.
208. Assessing the longer term efficiency of the market has proved considerably more difficult, as the market's efficiency is tied up with a number of other complex issues. These include; the efficiency and role of the planning process, land availability, price and use, and the dynamism of private sector property developers and builders. There is a high level of opaqueness on these matters and further work needs to be done here before a clear conclusion can be reached.
209. Very different views have been expressed to me about the working of the planning process, both by those operating it and those making applications to it. However the resources available for this study have not permitted a proper investigation of the issue. Similarly there is a paucity of data about the "land market" in Guernsey. Patterns of land ownership are unknown. There is no accessible central registry of land holdings. Land values, and changes in land values, are very uncertain, though it seems self evident that rising house prices will have trickled back to the scarcest commodity on Guernsey- the land itself. Little land is sold openly at auction. Most is sold privately by treaty. Widely different cost per average building plot figures have been given to me. Partly this is a matter of commercial-in-confidence information, but even the States itself has no central

¹¹⁴ *Ibid.* p.38.

asset register of exactly what land holdings it has ¹¹⁵. What seems universally agreed is that the States itself is the largest landowner on the island and, for interest, a reasonably accurate map of States' landholdings is attached at Annex 5. Once a proper account of landholdings is in place the States may itself be able to develop a strategic property plan for its own release of surplus land ¹¹⁶. What does seem clear is that the States has significant landholdings and it could, given the political will to make housing a priority, make significant amounts of land available for house building.

210. It is difficult to believe that property developers are not opportunity seeking and several new individuals and companies have come to the island in recent years. They normally pro-actively seek out land and buildings ripe for development, hoping to gain approval from the Island Development Committee (IDC) for housing. Developers also seem to buy land speculatively where they believe housing target areas will be identified. There have also been several new entrants to the construction industry, such as Mowlems, in the last few years. This may make competition more vigorous. Concern has been expressed about a lack of competition in construction ¹¹⁷, and this too awaits further investigation. The relatively small size of the annual Guernsey house build mitigates against large scale competition, unless residential and commercial construction forms a single market.

211. The local housing market has performed in the last two decades, as evidenced by the amount of new build and changing use. Concerns about the lack of affordable property, however, do not constitute evidence of inefficiency. In contrast, in market terms, it is entirely sensible for property developers and builders to build where profit margins are highest and demand greatest. This is the meaning of market efficiency.

(ii) Identification and assessment of the factors which drive supply and demand, including the influences of population growth and declining household size.

212. The factors which determine and drive supply and demand have been set out in section 5. The general factors have been considered at paras. 139-156, with further discussion of them, distinguishing between the macroeconomic and microeconomic factors at work, at paras. 157-160 and 161-163 respectively. This framework has been applied to Guernsey's housing sector at paras. 171-194. Emphasis throughout has also been laid on the many States' policies which impact on the property decisions of consumers and producers. As previously suggested, it

¹¹⁵ Though this is meant to be rectified in the next year or so.

¹¹⁶ One of the measures announced recently in the UK was the creation of a register of surplus brownfield land held by the government and public bodies to assist the target of building 60% of new homes on such land. See, *Financial Times*, 200,000 new south-east homes planned, 19th July 2002, p.4.

¹¹⁷ Knowles et al., *op cit.*, for the Board of Industry.

is the macroeconomic policies which are almost certainly the more significant in terms of their impact.

213. Whilst population growth is important it needs to be recognised that population growth does not add to demand directly, except in the sense that it might be held desirable that housing capacity be expanded to meet such growth. It is not population growth per se which is important, but the number of households any particular size of population gives rise to. What matters, from a purely market viewpoint, is whether the increase in population is able to afford to become separate households, i.e. can housing demand be made effective. The factors which affect household and family formation are complex, but are becoming better understood¹¹⁸. The main current changes in the social fabric are the breakdown in “*traditional*” household structures and forms and the rise of one person households. Many one person households in Guernsey comprise people of pensionable age. 11% of the number of total households in 2001 were of this type.. This is likely to increase as a consequence of an ageing population. However, there are currently more one person households in Guernsey of people under pensionable age. In 2001 13% of households were single persons, and a further 6 % were single parents with children. The latter group’s existence primarily reflects the decline in marriage and the rise in separation and divorce. In total therefore 30% of Guernsey households in 2001 were single adult households.
214. It is important to understand that whether new households are formed, or maintained¹¹⁹, depends partly upon their financial circumstances being sound. Although a financially unconstrained choice of young single adults, single old age pensioners and unhappy couples might be to live alone, this will not be possible unless adequate income exists in relation to housing and other household costs¹²⁰. Without that finance alternative living arrangements to one person households will exist. Young adults will stay at home, if that is an option, or share accommodation with other people. Pensioners will move to communal living or to their families. Unhappy couples will, out of economic necessity, seek to come to agreement and not split up.
215. This is important as population and household formation decisions are not independent of policy choices on, for example, housing supply, levels of rental subsidy available or tax relief given. For this reason all discussions of “*housing need*”, and exercises asking individuals what they “*need*”, must be carefully undertaken and the background policy assumptions made explicit. “*Needs*” cannot always be met. The key question is whether households can meet those needs themselves privately or whether these are merely aspirations which others (and most obviously the States) are expected to fill. Where the States chooses to meet

¹¹⁸ See Chapter 2, Households and families, *Social Trends 2000*.

¹¹⁹ Say when one partner dies.

¹²⁰ See, for example, M Iacovou, *Health, Wealth and Progeny : Explaining The Living Arrangements of Older European Women (University of Essex, mimeo, 2000)*, which investigates the importance of income.

those “needs” it needs to be aware that in doing so it is taking a *market equity* approach to policy. It is then redistributing resources. That said it is clear that there is a very close link between demographic change and housing requirements.

(iii) Identification and analysis of the factors influencing the prices of houses, including external influences (if any).

216. The price of houses and flats in the local market, and also the open market, is determined by the interaction of demand and supply. Local market prices will go up and down in accord with this- see section 2 and the observations made throughout on house prices in Guernsey. The drivers on the individual demand and supply sides have also been covered- see the answer to, and paragraph references in, the preceding question.

217. The main external influence on Guernsey’s local house market is the interest rate, see paras. 175-178, which is set in the UK. The performance of the Guernsey economy as a whole, as it is relatively open, is also dependent on external economic conditions. Changes in general international conditions, including the value of sterling, will thus ultimately feed through into the Guernsey local housing market, by affecting the macroeconomic performance of the economy. That performance will in turn determine the level of economic and income growth and the rate of inflation, and these will, in their turn, and in the ways previously outlined, affect private decisions and thus the housing market.

(iv) An assessment of the influence of mortgage tax relief and conveyancing costs (document duty and treizieme).

218. Mortgage interest tax relief (MITR) and conveyancing costs directly affect housing demand. MITR is a subsidy to housing finance. It lowers the post-tax cost of borrowing. Conveyancing costs are a tax on property transactions. The two have entirely opposite effects, with MITR raising consumer demand and conveyancing costs lowering consumer demand, compared to what they would otherwise be. Each pulls market price in a different direction. On MITR see paras. 89-93, 147 and 178. On conveyancing costs see paras. 46-50 and 147.

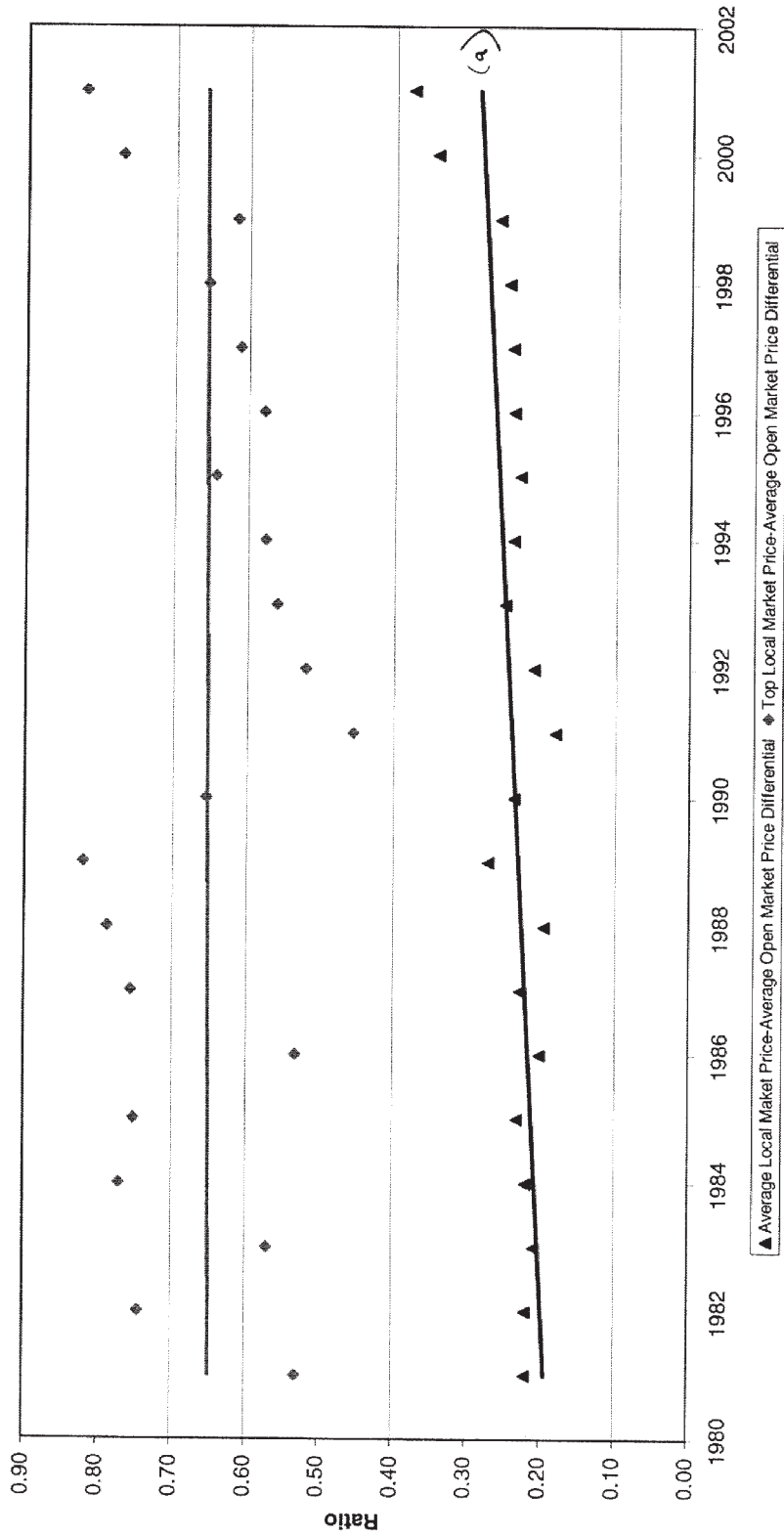
219. Quantitatively, MITR is the more important, now costing around £10m annually with conveyancing taxes raising under half that. They do not therefore offset each other. I have also commented on the undesirability of lowering conveyancing costs further, without fully compensating property tax increases elsewhere, if a policy goal is to restrain house price inflation, see paras. 191-193.

(v) A comparison of the differentials between Local and Open Market house prices, in so far as they impact upon the availability of property for purchase by persons legally resident in Guernsey.

220. The relationship between the local and open markets has not been considered so far, as the focus of the report has been on the local market. Previously, given the differences in the numbers of properties, their price and their potential occupants (see paras. 31-37) the two have been, implicitly, presented as quite separate economic markets.
221. However, there is some degree of overlap between them. The range of property prices in the local market does overlap with the range of property prices in the open market. At the top end of the local market some houses sell for £400,000 +. At the bottom end of the open market some sell for £400,000-.
222. Residentially qualified people can buy and occupy in both markets. Non-residentially qualified people can also buy, but not occupy, in both markets. The possibility exists that rising local market prices have narrowed the gap between the two markets so that residentially qualified people may increasingly be able to buy in the open market.
223. In order to examine this possibility the relationship between prices in the two markets has been analysed. Graph 2, overleaf, charts the ratio of the average local market price to the average open market price, and the ratio of the top local market price to the average open market price for when data is available ¹²¹, that is 1981-2001. A linear trend has then been fitted to each of the ratios.
224. The chart shows that there has been some narrowing of the differential between average prices- line (a). The ratio has increased from around 0.2 to 0.3 in the period. Open market property has, on average, become cheaper. Wealthy local residents may be able to consider open market properties. However, the ratio of the top local market price to the average open market price has varied considerably in the period. A linear trend shows it is broadly constant, with a value of 0.65, suggesting that the degree of overlap is still very small.
225. This conclusion is reinforced when the numbers of properties actually entering the “overlap zone” are considered.
226. For the vast bulk of the residentially qualified the local and open markets remain quite separate. For the wealthiest local buyers, around the top 5%, the open market is in competition with the local market. However, because of the market separation, it seems unlikely that properties costing the same in the local and open market are true competitors. Their characteristics will be different.

¹²¹ Note that the local market top price data supplied to us by ESU has already been topped and tailed by 2.5%, see Annex 5. The top price used here is so lower than the true top price.

Graph 2 Average Local Market - Average Open Market Price and Top Local Market - Average Open Market Price Differentials in Guernsey, 1981-2001



(vi) A review of private sector rental costs and their relationship to other sectors of the housing market.

227. Private sector rental costs have been compared with States' rents at paras. 103-111. This is an especially important comparison, as it provides one answer to the question about what the appropriate level of States' rents should be, if States' rents are to be set at economic levels. Private sector rents have been compared with house prices at paras. 75-77. One would expect, on a priori grounds, that private rents and house prices would maintain a fairly constant ratio, but this does not seem to be the case on Guernsey. Reasons for the differential growth in prices between the two have been discussed at paras. 75-77. At various points there is also discussion of the private sector rent control (PSRC) arrangements, which do not bite on private rents.

(vii) Comparison of data with other national or regional housing markets with similar economic circumstances, including Jersey.

228. This has been done throughout the report, but especially in section 2 where numerous international comparisons were made. Comparisons have mainly been made with the UK, Greater London and Jersey for the reasons set out at para. 6.

(viii) A review of current housing finance mechanisms, both bank mortgages and States Housing Loans, including;

- **an assessment of how house purchases are financed by the "average" household**
- **mortgage lending policies**
- **an examination of ratios of house prices, in relation to borrowing capability**

229. This has been covered at paras. 41-45, 54, 60-73, and 94-102.

(ix) A specific review of the impact, if any, of States Housing Loans on the current housing market, in terms of;

- **supply and demand**
- **affordability of housing**
- **effect on house prices**

230. The States' Housing Loan Scheme (SHLS) is, by design, a subsidy scheme aimed at bringing into the market first time buyers, some of whom might otherwise not be able, or find it difficult, to entertain home ownership at that point in time. It does this by providing an interest rate subsidy, which is funded by the States. Inevitably, therefore, it increases demand above what it would otherwise be. It must therefore

have as its short run effect the raising of prices over what they would otherwise be if the SHLS did not exist.

231. The broad details of the SHLS are covered in paras. 94-102. The average interest rate subsidy to holders of SHLS loans is over 3%, with a considerable number of households assisted in the last few years. In 2000 and 2001 respectively, 170 and 133 loans were granted, which totalled £19.5m and £15.7m. Given the number and value of local market property sales in those years, this meant that the SHLS was a major provider of mortgage finance. Its market share in 2000 of mortgage finance was probably over 10%. It has since fallen back as the scheme has been more restricted, and now, according to Table 9 is more like 5%.
232. SHLS's effect is to make housing more affordable to those first time buyers fortunate enough to be given the financial subsidy, but its effect will be to bid up prices generally. This will be both for those with a SHLS mortgage and all other first time, and other, buyers. It is not possible to determine exactly what the size of this effect has been.
233. Historically, SHLS loans may have gone to both those first time buyers who could afford to take out full commercial loans and those who could not, as there appears to be no income screening in the application and selection process. The number of first time buyers who are eligible and would like to have this subsidy is evident from the demand in 2000 and 2001 and the waiting list today. However, the cost of the scheme means that selection is now needed. To defend the selection process, the mechanics of which have not been investigated, convincingly means the underlying justification for the scheme has to be clear.
234. If the intention is that all first time buyers are deserving of subsidy then such loans should go to all first time buyers and not the selected few. If the intention is to help certain defined poorer households wanting to become owner occupiers then the scheme needs to have an income filter in the public application forms and in the stated selection criteria. At present it does not, with the result that those obtaining SHLS loans are selected by an opaque administrative, and to a degree probably arbitrary, process.
235. As the SHLS, and its predecessor, have existed for many years the effects identified above will also have been the long term effect.

(x) A specific Review of the House Price Index, including;

- **its method of computation**
- **frequency of reporting**
- **effect, if any, of these on house prices**

236. The review of the construction and properties of the House Price Index (HPI) is somewhat technical and, for that reason, is presented in full as Annex 6. The main points are recorded here.
237. The HPI is an index based on the quarterly transactions of properties, both houses and flats, recorded as property conveyances at the States' Greffe. It is computed by the Economics and Statistics Unit (ESU) of the Advisory and Finance Committee. Depending on the methodology used to organise and manipulate the data, somewhat different "average house prices" can result. It is important that the official price index is methodologically well based.
238. The HPI records prices of both local and open market properties and a separate index is produced for each. In examining Greffe records, ESU currently exclude business properties, commercial transactions, family transactions (which are often made at low prices to avoid legal and transactions costs), land transactions and any other suspicious transactions. Information from the Cadastre Department is used to establish the status of each property (local or open market). For the local market the top and bottom 2.5% of transactions are excluded on the argument that very low and high priced properties distort the index. The resultant HPIs are published in a variety of States' reports.
239. A commercial organisation, Unusualities of Guernsey, uses the same data source at the Greffe to provide information to the finance industry. It also generates average house price information as part of this service.
240. The main findings on the HPI are that its construction is broadly sound. Cleaning of the data is needed to exclude misleading and irrelevant transactions, though I suggest that ESU discuss their experience with Unusualities of Guernsey to compare practical procedures. However, I recommend that in the small sample environment the median of the cleaned data is a better measure than the mean of describing the average price of property. Adopting this statistic would eliminate the need for topping and tailing data, which is currently applied unevenly¹²².
241. The current quarterly collection and calculation should be retained. The quarterly frequency strikes the best balance between having a timely indicator and a sufficient number of observations on which to construct an index in the first place. Moving to a monthly frequency would generate spurious and unreliable volatility in the index, unless moving averages were introduced. Yearly calculation would be too infrequent to monitor price changes and be useful for policy discussion and formation.
242. Formal quarterly publication of the HPI does not currently take place, though the results are made available by ESU on enquiry. It is recommended that this changes and that formal publication, in a manner equivalent to that used for the RPI data,

¹²² Both local and open market data sets are non-normal so the same approach should be followed in each.

takes place. Markets work better when information is available. Increased information improves market transparency and pricing efficiency. It would also be possible for the HPI quarterly publication to contain comment on price movements, similar to that contained in other States economic commentaries¹²³. Public authorities in the UK express views about the housing market. The States should consider doing the same.

(xi) An assessment of the role of property prices on inflation.

243. There is no straightforward connection between changes in property prices and general inflation, as measured by the retail price index (RPI). Rapidly rising house prices can co-exist with low general inflation, as is currently the case in the UK, or house prices can be falling even when there is general price inflation, as happened in the UK in the early 1990s. Any number of levels of house price inflation, or deflation, can co-exist with general inflation. This is because housing is just one product in the economy, albeit an important one, and its price can change for reasons that are particular to it alone.

244. This lack of a straightforward relationship between changes in property prices and inflation is evident from the international comparisons made in chapter 2, and particularly Table 8, presented previously. There, in the Table, some major cities currently have house price inflation below general inflation, leading to falling real house prices. Yet in other, more numerous, cases house price inflation is above general inflation, leading to rising real house prices.

245. Similarly, Guernsey's own historical experience, mapped at Chart 1, shows that there have been occasions on the island when house price inflation has been below general inflation, leading to real house price falls. Then house price deflation has occurred. However, historically it is probably true to say that house price inflation and general inflation do normally go together, as they are both driven by the same fundamental economic factors.

246. There are some more tangible connections between house price changes and general inflation. The first is that property enters into the calculation of inflation, through the on-going property expenditures made by the average household. Based on the 1998/1999 Household Expenditure Survey, housing costs accounted for 21.6% of total spending in Guernsey. This therefore is housing's immediate "weight" in inflation, as measured by the RPI.

247. But house prices themselves do not directly enter the RPI index. They enter it only indirectly. This is in a number of ways. They affect the average size of mortgage taken out by households in owner occupation and so affect mortgage repayments. Such ongoing payments are part of RPI. (However, alternative measures of inflation, such as RPIX used by the Bank of England for inflation

¹²³ Such as the RPI press releases and annual documents such as, *2002 Sustainable Guernsey, op cit.*

targeting, exclude mortgage interest costs.) Changes in house prices will, after a lag, also affect other property related expenditures, such as house insurance. For those in private rented accommodation or States' properties, rents will be part of spending and enter the RPI. Rental levels can be linked to property price changes. One would expect private rents and house prices to move together - see para.75. If States' rents were based on economic levels they too would be connected to changes in property values. At present they are not- see earlier.

248. In the longer term house price changes will affect inflation, but again only indirectly. They can do this by affecting the behaviour of agents, particularly consumers, in the economy. Thus, house price changes might affect wage demands and contribute to further cost inflation. However, it is thought that wage demands and settlements are more influenced by changes in all prices (the RPI), rather than simply one price and one component of the RPI. This is because consumers purchase on average all the goods in the RPI basket and where wages are indexed or bargained, it is normally the RPI as a whole that is used as the relevant measure of changes in purchasing power. In Guernsey it is understood that housing costs have been raised by groups seeking wage rises but this has been consistently rejected as an argument for wage increases
249. A further possibility is that rising house prices might, indirectly, trigger consumption by consumers. This possibility is more controversial but potentially of much larger importance. There does appear to be a correlation in the UK between changes in personal wealth and changes in the savings ratio (and hence the consumption ratio). Owner-occupied housing is marketable wealth held by households. If the real value of that wealth increases, because the rise in property prices is greater than the general rise in the RPI, then there may be a wealth effect for consumers. In balance sheet terms the households who are owner-occupiers may be better off. They may save less and spend more. However, where property price inflation is the same as general inflation there is no wealth effect. If there is differential inflation there is a consequent wealth effect ¹²⁴.
250. The way that this effect comes about is normally through increased borrowing on the part of owner-occupied households against the increased value of their equity stakes in property, i.e. increased mortgages or second mortgages. This is known as mortgage equity withdrawal. In the UK the extent of this mortgage equity withdrawal is now monitored by the Bank of England and H M Treasury ¹²⁵.

¹²⁴ Technically the second effect comes down to specifying econometrically the aggregate consumption function and the part played by wealth, W, in it. This is done in large economies for macro modelling and forecasting purposes.

¹²⁵ See, M Davey, Mortgage equity withdrawal and consumption, *Bank of England Quarterly Bulletin*, Spring 2001, pp.100-103, and M Davey, Saving, wealth and consumption, *Bank of England Quarterly Bulletin*, Spring 2001, pp. 91-99.

251. A similar consumption effect can, in principle, come about from other wealth changes. A parallel source of concern has been the wealth effect of changing stock market values on equity portfolios held by households ¹²⁶.

252. The wealth effects on consumption have been widely studied in the last 15 years because of the number of sudden changes in personal sector wealth that have occurred; for example, the 1987 and 1998 global stock market “crashes”, and the rapid rise in house prices in the UK in the late 1980s and their rapid fall in the early 1990s. Policy makers have naturally been concerned how to factor in such changes to their forecasts of consumer spending and hence to their policy actions. Much academic work has been undertaken in the UK ¹²⁷ and the US ¹²⁸.

253. Thus, in principle a consumption effect can occur. Whether it does or not in practice depends very much on the size of the wealth change and whether it is expected to be permanent. In general such wealth effects on consumption have proved to be small ¹²⁹. No data exists to determine whether equity withdrawal is taking place in Guernsey.

(xii) An appraisal of the various options available for government intervention in the housing market, including what effect the various measures may have on;

- **housing affordability and house prices**
- **housing availability (supply and demand)**
- **States funding requirements.**

254. In appraising the various options open to the States so that it can influence the local housing sector (owner occupied local market property, private rented local market property and States’ housing), a number of preliminary points need to be made.

¹²⁶ This has been more of an issue in the US, where equities are a more important form of wealth, triggered by the buoyant stock market in the 1990s. See, *The Economist*, Economics Focus: The Wealth Effect, 12 August 2000, p.92.

¹²⁷ See for example; D Miles, House prices, personal sector wealth and consumption : some conceptual and empirical issues, in *Manchester School*, v.61, n.2, June 1993, pp.35-59; D Miles, *Housing, Financial Markets and the Wider Economy*(Chichester : John Wiley, 1994); N Pain, P Westaway, Housing, consumption and borrowing : an assessment of recent personal sector behaviour in the UK, *National Institute Economic and Social Review*, n.149, August 1994, pp.53-64.

¹²⁸ See for example; S Ludvigson, C Steindel, How important is the stock market effect on consumption?, *Federal Reserve Bank of New York Economic Policy Review*, v.5, n.2, July 1999, pp.29-52, and, K Aoki, J Proudman, G Vlieghe, Why house prices matter, *Bank of England Quarterly Bulletin*, Winter 2001, pp. 460-468 .

¹²⁹ The 1987 global stock market crash did not lead to global private consumption falls and recession.

255. First, such an appraisal cannot be done properly without being clear about what the goals of housing policy are. Whilst there may be an overarching general goal that the Guernsey population is well housed, suggesting options for intervention in the market cannot be done satisfactorily without knowing the more specific housing goals (and hence the evaluation criteria) that are in place. If there are specific policy goals such as the promotion of owner occupation at the expense of other housing tenures, the support of first time buyers or supporting the poor, then this is key to suggesting options and appraising them. I have argued that a number of existing policies are unclear as to their justification and I have already made clear my view that there is little economic justification for a policy which actively promotes one form of tenure over another. There is, in contrast, a very clear market equity case for supporting the poor in their housing expenditures. However, the choice of housing policy goals is a matter for those on the island to debate and for the political process to resolve. Instead emphasis here is on the economic characteristics, including the criteria listed above, of a number of options. Inevitably, many of the options considered are politically unattractive when there is a problem which may require some combination of increased intervention, tax rises (to fund expenditure) and/or loss of benefit for some households.
256. Second, the general tenor of the options considered are that they work “with the market” rather than “against” or “instead of” it, through administrative or other means. House price and rent controls, for example, have been tried, and rejected, on Jersey in the recent past. Such price control policies, which could extend to land prices, are not thought desirable as they ultimately aggravate any problem of rising prices, rather than resolving it ¹³⁰. They are not examined here. Similarly, compulsory purchase of land and buildings by the States at non-market values is not considered. There is a legitimate philosophical debate about the appropriate role of the state in this market, but this report focuses on rather narrower, more practical matters ¹³¹.
257. Third, one of the chief potential policy instruments, the interest rate, is unavailable to the States as it is determined by the monetary authorities in the UK. Whilst there is some debate about whether interest rates should be used to target housing, and other asset, prices as well as general price inflation ¹³², interest rates can in principle be used for that. Their main advantage is their power, as most house purchase is partly financed by borrowing, and that they can be adjusted almost continuously (monthly in the case of the UK). Such a possibility is redundant, however, as the States cannot set interest rates for Guernsey.

¹³⁰ For the analysis supporting this view, see, LECG, *op cit.*, paras. 155-163.

¹³¹ For a wider view see, J Barlow, K Bartlett, A Hooper, *Land for Housing : Current Practice and Future Options* (York : York Publishing Services, 2002).

¹³² *The Economist*, 20th April 2002, p.90.

258. Nevertheless, there are many options potentially available for influencing the functioning of the local housing sector¹³³. These operate on either the demand or the supply sides of the market and may best be suited to the short or long term. Measures to curb or raise demand are more likely to deal with short term problems, whilst policies to increase the market supply of new property for sale or rent are more long term in nature. It should be noted that measures which curb demand will tend to lower market prices, but will, by their very nature, also mean that households are generally worse off and that fewer households can buy or move house.

259. The options open to the States for influencing the local housing sector are very wide and to make consideration of them manageable, attention is focused first on existing policy instruments, and then on some possible new policies. Fifteen options are considered.

- the States' overall management of the economy and the fiscal policy stance taken
- mortgage interest tax relief (MITR)
- document duty and treizieme on residential property sales
- other property related taxes on owner occupiers- tax on rateable value (TRV) and occupiers rates.
- States' Home Loans scheme
- States' gross rental levels
- Rent Rebate scheme
- the general planning regime
- policy on change of use of hotel and guest houses
- policy regimes for the private rented sector
- States' house build
- States' land release
- development of a competition policy
- tax reform to catch benefits in kind
- co-ownership schemes

(1) The States' overall management of the economy and the fiscal policy stance taken.

260. An important conclusion of this report is that there is a close relationship between the overall management of the economy and the housing market. The States' approach to managing the economy does not form part of this research brief, but it is clear that it is central to understanding housing market dynamics. The fact that Guernsey has experienced higher inflation than mainland UK has meant that real interest rates on Guernsey have been substantially below the UK, even though the nominal base rate is the same. An era of "cheap money" has come

¹³³ What follows draws upon J Hawksworth, Could house price inflation be kept under control if the UK enters EMU?, pp.18-23, of, S Wilcox, ed., *Housing Finance and Review 2001/2002* (published for the Joseph Rowntree Foundation by the Chartered Institute of Housing and the Council of Mortgage Lenders, 2001)

to pass. Coupled with low unemployment and income growth, arising from the successful management of the economy, this has led consumers, and lenders, to become more optimistic about the sustainable levels of mortgage debt to take on. Personal sector indebtedness as a whole is probably well above the UK level.

261. Although low unemployment and strong growth are in themselves desirable, one of the unintended consequences of running the economy so close to full capacity is that inflation results. The consequence of inflation has been slacker monetary conditions. Therefore a first option is that the States reconsider its management of the economy and its use of fiscal policy. The importance of inflation as a macroeconomic target, vis a vis other targets, could be raised (and appropriately tough anti-inflation policies developed). This would mean that monetary conditions on the island became more akin to the UK.
262. One way to achieve this would be to adopt a more restrictive fiscal policy, running a budget surplus. This would probably ease any general inflationary pressure¹³⁴. A more particular option would be to use fiscal policy in a deliberate and counter cyclical way to micro manage the housing market, so that the overall stance would be such as to deliver a particular level of stable house prices. Stated baldly this is not attractive as it elevates one market to a pre-eminent position above others, when management of the economy has to encompass many other wider and competing objectives.
263. Nevertheless, the general point about adjusting fiscal policy remains, if only to help moderate inflation. Because nominal monetary conditions in Guernsey are set off island this places a much greater burden on the States getting fiscal policy right and increases the importance of setting the long term fiscal stance correctly. Macroeconomic performance will impact on inflation (and hence real interest rates in Guernsey), disposable incomes, economic activity and unemployment risk. All of these will have effects on housing and other consumer spending.
264. In my view, inflation in Guernsey needs to be kept at levels similar to that of its international competitors. Then, in a housing context, there is less difference in real interest rates between the UK and Guernsey. The simple economics of running of balanced and unbalanced budgets, and developing and living within budgetary rules, is complicated for Guernsey, like Jersey, because of the difficulty of distinguishing the long term budgetary position from the more volatile returns from the finance sector. There is the added complication of ensuring that States' capital construction expenditure does not crowd out private construction activity and/or create cost pressures in the construction industry. The level and phasing of capital construction has effects on new housing costs. All this shows that some very important macroeconomic issues arise here, which have a major impact on the housing sector.

¹³⁴ The caution here is that States' finances and the macro functioning of the Guernsey economy have not been investigated, though the general propositions here are likely to be correct.

(2) Mortgage interest tax relief (MITR)

265. MITR has already been considered in some depth. It is a subsidy which lowers the post tax cost of borrowing and has made borrowing for house purchase attractive. Coupled with the higher inflation rate in Guernsey compared to the UK, it has meant that the real post tax financing costs of a mortgage have been very low for the last 20 years. The real post tax cost of mortgage finance is now only around 0.5%. The majority of owner occupiers in Guernsey have mortgages and MITR at 20% has a significant effect on household budgets.
266. The existence of MITR raises the demand for housing, which in turn raises market prices. The reduction of mortgage interest tax relief, in contrast, should improve efficiency by making household consumption decisions both overall and on housing matters more aligned with the full economic costs. Subsidising one form of housing tenure harms economic efficiency.
267. If MITR were to be abolished in whole or part, or phased out over a suitably long period, the effect would be to dampen price rises and raise States' revenue. The precise effects would depend on the details of the scheme introduced. A wide variety of possibilities for change to MITR are possible, including; restricting relief to one house; restricting relief to houses on Guernsey; restricting relief to first time buyers; capping the amount of relief; and so on. The issue of how it is reduced, or even abolished,- over what timescale, or whether transitional arrangements need to exist- are second order questions once the decision has been made in principle to reduce it. Home buyers have made large financial commitments believing the relief would exist. A 5 year transition is probably the minimum possible without undue disruption. The experience of the UK, in the abolition of tax relief there, is set out in Annex 3.
268. The effect on affordability is less clear cut, as it is unclear both what the typical budgetary and income position of first time and other buyers is and whether the fall in real market prices would compensate for the loss of MITR (if that applied to them). But if MITR were retained for first time buyers, but not others, affordability would probably increase for that group.

(3) Document duty and treizieme on residential property sales

269. Document duty and treizieme on residential property sales are taxes on the transaction itself. Raising transactions taxes will have the general effect of discouraging transactions. The UK has accepted and used its transaction tax, stamp duty, to try to influence house prices- see Annex 4. Such taxes can be used to try to offset house price movements. Increasing transactions taxes in Guernsey would raise States' revenue, and lower demand and prices. The use of bands of tax, with different rates in each, can discourage sales in particular price brackets. Recent States' policy in this area has not been helpful for the housing sector (whatever the other reasons for change), even if the effects are small scale, as the States has reduced taxes, and has announced further plans to cut taxes. This may have played a signalling role to purchasers that the States is relaxed about property price increases.

270. In analysing a similar reduction in stamp duty in Ireland in 1998, where house prices have been increasing at a rate close to that of Guernsey- see Table 8, one commentator described the policy action as;

*“ ill conceived and demonstrates a lack of understanding of the operation of a booming house market ”*¹³⁵

271. Although the effectiveness of transactions taxes can be debated, they remain a policy instrument. Small increases in transaction tax would probably be largely absorbed by additional borrowing. The one off cost rise for a purchaser would be spread over the lifetime of the mortgage and might be too small in any one year to have a great impact on affordability. However, even if the quantitative effect of increases in transaction tax are small (unless very large increases are introduced either across the board or progressively) they can still play a part in signalling government intentions, especially if part of a package of measures.

272. There are various ways of structuring transaction taxes and many distributional possibilities suggest themselves, some of which may be more attractive for equity reasons. But the option should aim to increase the burden of document duty and treizieme as a whole, as they are complementary goods in house purchase¹³⁶, if the policy goal is to curb demand and lower prices for local market houses.

(4) Other property related taxes on owner occupiers - tax on rateable value (TRV) and occupiers rates.

273. In contrast to changes in transactions taxes, TRV and occupiers rates are much more powerful as they are not one-off costs a house buyer must pay, but are annual on-going costs and can therefore be expected to be more significant in the figuring of house buyers (as well as lenders who will be concerned that their secured lending is not stretching borrowers too much).

274. In Guernsey the States at present only has control over the TRV part of these annual taxes. The parishes set occupiers' rates. In the longer term some reform might be possible here whilst still leaving the parishes as important and autonomous political bodies. The power of this lever would be increased if control over rates were centralised. Even if parish control remained over occupiers' rates, it is open to the States to make TRV more important in its tax base.

275. There are two main issues as regards these property taxes. The first is that they are currently set at relatively low levels. If demand for property is to be reduced, so as to lower house prices, the burden of these taxes should increase. There is little justification for increasing TRV by less than inflation if curtailing house price inflation is a policy goal. The intention could be spelled out that increases in

¹³⁵ C Memery, The housing system and the Celtic paper tiger: the State response to a housing crisis of affordability and access, paper presented at the ENHR 2000 conference, quoted in Hawsworth, op. cit.

¹³⁶ Indeed the tax cannot be avoided for most buyers.

property taxes are desirable and will take place. This would dampen housebuyer expectations in the meanwhile.

276. Second, the RV system needs reform. As RVs are largely unrelated to current property values, TRV is an inefficient and inequitable tax. Houses which are greediest for space are not taxed significantly more than others. Indeed there may be very little relationship between TRV and use of space.
277. TRV is probably also regressive, i.e. more of a burden on the poor, with its burden unrelated to the ability of households to pay. One would expect there to be a broad relationship between the value of the house inhabited and the income of its residents. This relationship will not be perfect, as there will be some asset rich/income poor households, but the general relationship will be there. Property taxes which are proportionate to the current value of a property will mean a neutral, or indeed progressive, tax structure related to ability to pay. There are a variety of ways to deal with the anomalies which can arise with this ¹³⁷.
278. Once TRV is updated and linked to current property values, it would be necessary to maintain this link. There could be an island wide 10, or 5 yearly, property revaluation. In this way any boom in house prices would lead to higher property taxes. This should have some dampening effect on prices over the property price cycle.
279. In the interim years between revaluations, TRV could be indexed to a local house price index, such as a reconstituted Guernsey House Price Index. Thus the level of property taxes would be permanently linked to house prices.
280. As with the MITR and transactions tax options the precise effects would be dependent on the details of the scheme adopted, but the broad intention would be to make property taxes more linked to current value. Intending purchasers of property would so factor this into buying decisions. At present with the outdated RV system underpinning TRV and occupiers' rates this is much less so.

(5) States' Home Loans scheme

281. The States' Home Loans scheme (SHLS) is a subsidy scheme like MITR, aimed at bringing first time buyers into property ownership. As previously analysed in part (ix) of this section its effect will be to increase property prices. I have already made clear my view that this promotion of one form of housing tenure is not defensible on market efficiency grounds. The SHLS also does not appear to be administered so that the poorest first time buyers are helped- a market equity justification.

¹³⁷ See, J Muellbauer, Safety in Property Tax, *Financial Times*, 2nd July 2002, p.19, which proposes a national property tax based on market values with frequent revaluations. See also, OXERA papers produced for Jersey's review of its tax system, 2002.

282. If the policy goal is to reduce property prices the SHLS should be more limited, if not scrapped, and the budget used for other schemes. If the policy goal is to assist specified low income households to become owner occupiers then income screening should be more explicit.

(6) States' gross rental levels

283. States' gross rents are well below economic levels. It would be desirable to increase their level to an economic level for a number of reasons. Firstly, it would bring home to the population at large the "real" costs of housing and would mean that some equivalence would be achieved between rents in the private and public sector. Secondly, with States' rents so low, it makes States' housing very desirable and can lead to the wrong presumption that the States, or a Housing Association, can economically provide housing at such levels of rent. They cannot. Thirdly, and conversely, it would defuse some of the resentment that perhaps exists about the level of private sector rents and house prices, which may be seen as exploitative. Raising States' gross rents would mean greater transparency about the real costs of housing.

284. Raising States' rents in this way would, in the absence of any other policy change, substantially increase the housing expenditure of States' tenants, increase States' revenue and deter people from applying for States' housing. Of course a more sensible approach would be to adjust the rent rebate scheme simultaneously so that the majority of States' tenants were in the same net financial position as before gross rents were raised. This is, as I understand it, the broad intention of the Housing Authority. Although this might seem just like a paper exercise, if no net financial change occurred, the benefit is that the real costs and subsidies are made transparent.

(7) Rent rebate scheme.

285. The Rent rebate scheme (RRS) is an explicit subsidy scheme justified on the basis of market equity. The main question that arises here is whether the amount of subsidy presently given to the "poor" in States' housing is adequate or excessive. This is not a question I have a view on as it is essentially a political decision, though economic comparisons of the financial position of States' tenants with other parts of the population can assist the decision.

286. If the RRS were more restricted there would be budgetary savings for the States, which might be spent elsewhere in the housing field. It would also tend, at the margin, to make private rented accommodation or owner occupation more attractive to some States' tenants. If the RRS were made more generous the effects would be the reverse.

287. However, the RRS has one striking defect. On market equity grounds there is a strong case for extending the RRS to cover renters in the private sector. This would have budgetary implications for the States.

(8) The general planning regime

288. In contrast to the first 7 measures, planning regime changes are a more long term policy option. If successful, the impact of increased, or more timely, or more appropriate supply of property (in terms of the housing mix desired by the authorities) will take time to come through and will be cumulative in effect.

289. It has already been noted that this report has not investigated in depth the efficiency of the current planning process and the policy options suggested here need to be treated cautiously as a result. It would be sensible if more work is carried out here before change is considered and appraised. Planning regime changes should not be introduced lightly. Nevertheless, there are some relatively uncontroversial changes which might improve the speed and certainty with which housing supply came onto the market. The planning process itself might need more staff, clearer external communication, less political involvement and more delegated powers.

290. To ensure that planning permission once gained was not sat on but used a reduction in the time before permission lapsed could be considered as well as a more critical approach to reapplication. In extremis a use it or lose it policy could be followed.

291. The single most far reaching option would be to adopt the equivalent of the UK's "planning gain" approach and to secure particular types of housing via planning agreements. Planning powers would be increased to require, on say sites above a certain size, the provision of a suitable number of affordable/low cost and/or social houses, in addition to whatever the applicant wanted to build. The presumption here would be that the market was unable to deliver the right types of housing on its own.

292. If implemented, for example, an application might be approved to build 20 properties, but 5 of them had to be of a low cost variety (however defined) and 5 social housing (however defined), which had to be handed over to the Housing Authority or Housing Association, once up and running. In such a change, it would be very important to have an unambiguous definition of what constituted low cost and social housing¹³⁸. Equally the financial basis for such requirements on developers and builders would need to be properly and clearly set out to avoid wrangling and undermining the viability of projects, as appears to be happening in the UK¹³⁹.

293. Essentially this is a system of quotas, where the planning authority has the power to determine, in part, what gets built. The market is, in part, directed to build, rather than choosing wholly for itself.

¹³⁸ See the interim report, *The Provision of affordable housing through the planning system: a joint research project at the University of Sheffield and the University of Cambridge* 2001.

¹³⁹ See discussion in, Housing policy slams the door on key workers, *Financial Times*, 13th/14th July 2002, p. xi.

294. The effect of such a policy, in principle, is to increase the supply of particular types of home, especially for lower income groups. The danger is that unless properly thought through and organised it may make property development more uncertain and less responsive.

(9) Policy on change of use of hotel and guest houses.

295. The situation on Guernsey, on this issue, appears to be very similar to that on Jersey which I investigated, and reported on, in 2000/2001¹⁴⁰. Increasing numbers of proprietors are seeking change of use from hotel and guest house to residential use. This is prompted by both the high prices commanded by residential property, compared to sale as a going concern, and little growth, if not decline, in the long term visitor numbers coming to the island.

296. It is thought that a combination of planning and tourism policies limits this change of use on Guernsey, in particular strategic policies 7 and 17a of the 2002 Strategic and Corporate Plan, which enable redundant tourist accommodation to be converted to housing only where this is compatible with the protection of core bedstock.. This policy is constructed on the basis that sufficient bedstock capacity (2,700 rooms/units) must be maintained to accommodate visitors.

297. The economic basis for this policy is not clear-cut, particularly if some core bedstock is used only for the summer peak period, whereas in a housing use it could be used all year round. I have not investigated the basis of the bedstock policy, but it is quite possible that some relaxation of policy could be considered, if the benefits of property in use as housing outweighed its use as tourist accommodation. Clearly further work and analysis, on the lines of my report for Jersey, is needed to establish whether this is the case or not.

298. If it were it would increase the supply of new property for sale and/or for rent. Depending on the numbers converting it might be a significant source of new supply, but without any new building. The additional supply would tend to lower market prices.

(10) Policy regimes for the private rented sector

299. Guernsey still has a reasonably large private rented sector compared to the UK, although its significance has shrunk in the last 20 years. A variety of policies are possible to try to maintain and increase the supply of rented property. Such incentives might range from free advice to favourable tax treatment. This might apply to some or all of the range of landlords, from individuals subletting part of property, which is presently underused, to more professional management companies with a property portfolio.

¹⁴⁰ LECG, Hotel and Guest House Capacity in Jersey : A Report to the Industries Committee of the States of Jersey, January 2001.

300. In principle an expanded, good quality, private rented sector is a genuine alternative to owner occupation. This could have some effect on house price rises if it was both genuinely additional accommodation and was able to take demand away from owner occupation. However, the development of such a sector is a long term policy. In the short term increased flexibility for housing workers in the building and horticulture industries in prefabricated buildings has been suggested to me as more immediately possible.
301. Note that the increased use of private sector rent control will work against the creation, through market forces, of such a sector. Rent control, if it bites, will have the general effect of making the provision of rental accommodation unprofitable for private sector landlords and will lead to diminished supply and/or falling expenditure on maintenance and quality.

(11) States' house build

302. A more direct option is to increase the stock of property owned and run by the States, through a major building programme. The number of States' properties has risen a little over the last 20 years, from 1963 to 2132 properties, though the percentage of households in States' properties has fallen.
303. The States is a substantial landowner and an expansion of States' housing is clearly possible. The cost would clearly affect States' finances. The size of any such build programme might depend on agreement that the States should take the lead in providing for "poor" households on the island, many of which are currently housed in non-States property.
304. States' build, by expanding the total housing stock, would lower private rental and house prices. A variant of this option would be for more funding to be provided to the Housing Association so that it built and ran social housing, as well as the Housing Authority.

(12) States' land release.

305. Alternatively, rather than the States building more property itself or having it built, its land holdings could be progressively sold off in a prolonged pre-announced manner to the private sector for housing development. This would, even if sold at market prices, tend to lower market prices for land. This should in turn lower new house prices, as land accounts for around 30% of total costs¹⁴¹.
306. As an alternative, it would be possible for the States to sell off land at below market prices, so long as sufficient control was exercised on what then happened to that land. Windfall gains to either or both of the land purchaser and any new house purchaser must be avoided. It appears as if land sales in the past were poorly handled, though the experience of covenants in the Courtil Leonie development provides a template for how future land sales might be handled.

¹⁴¹ This figure is uncertain and quite different proportions have been quoted to me in the course of this project.

(13) Development of a competition policy.

307. Increased competition lowers market prices, so developing a competition policy, a body of law and an agency to implement the law would, given a sufficiently wide remit and adequate powers, tend to lower prices of goods associated with housing (assuming there were some monopolistic pricing at the moment.)
308. Many possible candidates for investigation by such a new body have been suggested to me. These include the construction industry as a whole, the supply of some buildings materials, advocates scale fees, and standard estate agency commission, amongst others. I am not suggesting that these are cartelised or monopolistic activities, merely that some have suggested they might be. Whether such an allegation was true would have to await a thorough competition investigation. Depending on the outcome of the case, lowered prices for some of these products/services will increase housing demand. But if new house costs could be lowered then this would restrain second hand house prices, as the two are substitutes.
309. It is noteworthy that the neighbouring and larger island of Jersey now has a fledgling competition authority, the Jersey Competition Regulatory Authority (JCRA), and also concerns about construction prices¹⁴². Lessons might be learnt from their experience. I would note that competition problems seem likely to be more acute on Guernsey than on Jersey, simply because the Guernsey economy is smaller.(see the observations made at para. 29). This would suggest that the potential gains from an active competition policy are correspondingly larger.

(14) Tax reform to catch benefits in kind.

310. A factor which has frequently been mentioned to me as exacerbating house price rises has been the practice, especially in the finance industry, of employers offering mortgage loans at low, and subsidised, rates to their employees. Given the current low real post-tax cost of borrowing for ordinary consumers, this probably means that those in receipt of such subsidised loans are now borrowing at negative real post-tax rates of interest¹⁴³. In such circumstances it is advantageous to borrow as heavily as possible.
311. Inevitably such highly geared borrowers will be exerting upward pressure on house prices because of the subsidy, just as recipients of SHLS lending are. Unfortunately little hard information has been discovered about the prevalence, scale and significance of such lending and “perks”.

¹⁴² *Financial Times* supplement on Jersey, p.iv, How monopolies milk consumers.

¹⁴³ For example a subsidised loan at 3% would have a post tax real cost of minus 1.5%.

312. One possibility would be to try to bring such perks within the tax net to try to discourage such lending. However, if the labour market in the finance sector is competitive this might simply result in other parts of the remuneration package rising to compensate for perks being taxed. There might then be little net effect on housing demand. Further work would be needed to develop this policy option.

(15) co-ownership schemes.

313. Co-ownership, or shared ownership, schemes run successfully in many parts of the UK. The basic idea behind these is that many potential owner occupiers cannot afford to borrow money to buy a property outright, but may be able to afford a proportion of a property, say 50%. After a year, say, there is an opportunity to purchase further shares and it is, therefore, eventually possible to own the property outright.

314. Clearly co-ownership is most attractive for first time buyers when the full property price is out of reach. However, it requires a partner to help purchase the missing proportion the buyer cannot afford and for some arrangement for that partner to be financially rewarded for doing that. In the UK the normal arrangement is that a Housing Association runs the scheme and allows its tenants to part buy and part rent, with the proportions changing through time. There are alternative models, for example in Guernsey the Housing Authority might be the partner, but this would seem something that the new Housing Association on Guernsey should initially explore.

7. Summary and Conclusions

315. A considerable number of issues have been covered in this report and summarising the material is inevitably selective. This section covers, in turn, the main factual findings, policy conclusions and areas that need to be taken forward.

316. Guernsey has a strong owner occupation culture, based on a high level of home ownership;

- In 2001 Guernsey's housing tenure was split in the following way; households were 72% in owner occupation, 19% in private rental and just 9% in States' rental.
- In the past 20 years owner occupation has become more dominant, rising from a level of 66%, at the expense of the other two tenures. Guernsey now has one of the highest owner occupation rates in Europe.

317. This culture is reflected in widespread concerns about the present affordability of houses, the desire to assist first time buyers and a popular belief that it is a right to own a home. However, with such a high level of existing owner occupation, such views may mean that those less suited to, and able to sustain, home ownership are being encouraged into inappropriate housing choices.

318. Local market house prices have risen substantially in the last 20 years, but this, in itself, is not out of the ordinary. International evidence shows that residential property in many parts of the world has undergone a similar upward revaluation. More specifically;

- Although the average local market house price is higher than in the UK as a whole, it is still lower than in Greater London and Jersey. However, the rate of real price growth has been strong since 1995 and the average house now costs £255,000 in Q2 2002.
- There may be some slowing of price growth in 2002, compared to 2001, though the extent of this is unclear.
- Although both nominal and real average house prices have generally moved up in the last 20 years, there have also been periods of price falls too, the last time being in the early 1990s. Then average real prices fell by 28% between 1989-1994. There is a house price cycle in Guernsey, as in other areas.
- The prospect of price falls should not be discounted. Many in the UK believe the current level of prices there is unsustainable. Almost all believe the current rate of price growth there is unsustainable.

319. The high average local market house price has raised concerns about affordability and the future vulnerability of purchasers. However;

- Although in historic terms current average prices are at a high, as measured by the standard price/earnings ratio, the fall in nominal interest rates has

meant that on average property is still affordable. Affordability, as measured by the significance of mortgage repayments in relation to income, is below its long term average.

- The average mortgage held by an owner occupied household is uncertain. It is probably in the £75-100,000 band. The average new mortgage being taken out is probably in the £140-180,000 band.
- As in other high house price areas, this makes those with a large mortgage vulnerable to any interest rate rises, especially if rates were eventually to move back towards past levels.

320. Furthermore, the present relatively low inflation environment means that the real value of mortgage debt being taken on by new buyers will erode more slowly than for previous generations of buyers. This is true across the board. In addition, and contrary to popular opinion;

- Average house prices have risen in a similar way in all price brackets since 1995, except that the top 25% (quartile) have become relatively cheaper. There is no evidence that prices have been especially squeezed at the lower end, the bottom 25% (quartile). The problem is one of rising prices generally.
- There is no available data to determine whether income distribution has become more uneven in the last 20 years. If that had occurred it would mean that, despite property at the lower end of the market not becoming proportionately more expensive, those on below average incomes would be finding it more difficult to enter the market and buy such property. Average buyers might be coping, but this would be less true for below average buyers. First time buyers, at the start of their working lives, might be expected to fall into this category.
- Nevertheless, problems of access to the market are widely thought to be a problem for first time buyers and key workers, though no evidence has been found to support this proposition. Similar concerns about affordable housing, key workers and market access are being expressed in Greater London and Jersey.

321. Increases in housing costs have not simply been confined to house price rises;

- Private rents have risen significantly more than house prices in the last 10 years. The reasons for this are unclear. The average private rent is now £466 per month.
- However, States' rents have been held down and are currently £303 per month. They are well under half the equivalent market levels.

322. The gain to a States' tenant arising from the low gross rent currently being charged is only one of a number of subsidies that the States, implicitly and explicitly, makes to households. Up to 55% of residentially qualified households receive a housing subsidy of one form or another. These subsidies cost nearly £25m per annum, split roughly equally between States' tenants and owner occupiers.

323. The causes of the rising house and private rent prices are a combination of macro and micro economic factors, though the former are almost certainly the more important quantitatively;

- The similarity of recent price changes across many other cities and countries strongly suggests that it is macroeconomic fundamentals that are driving market changes, not the specifics of housing policy (though these will of course exert some influence).
- For Guernsey, interest rates, a key macroeconomic driver of demand generally, are set in the UK for UK conditions. As inflation has been higher in Guernsey than in the UK for many years, Guernsey's real interest rates have been correspondingly lower than in the UK.
- The existence of mortgage interest tax relief (MITR) in Guernsey, which was phased out and no longer exists in the UK, has further widened the real interest rate gap between the two countries. Whilst the monetary authorities in the UK have been setting interest rates to maintain economic stability there, an era of "cheap money" has increasingly presided in Guernsey. The real post-tax cost of mortgage finance is now just 0.5% in Guernsey.
- The combination of the strong growth in real consumer incomes and the relative absence of unemployment over the last 20 years has also lead commercial lenders on the island to lower estimates of default risk and to finance ever higher mortgages, in terms of income multiple and the percentage taken of net disposable income. This has compounded the cheap money effect.

324. On a wider canvas these factors have almost certainly lead Guernsey households to have higher levels of personal indebtedness than in the UK. It is unclear whether managers of the economy in Guernsey have fully understood the consequences of higher inflation and ITR for monetary conditions on the island.

325. At the microeconomic level, a number of the States' housing policies have not helped the local housing sector situation (if the overarching concern is with rising house and rent prices);

- The two owner occupier subsidies, MITR and the States Home Loans Scheme (SHLS) can only have created upward pressure on local market house prices (which in turn will drag rents higher).
- The recent simplification and reduction of document duty, and the planned abolition of treizieme, will also have exerted some upward influence on price but may have acted chiefly as a signal about the States' intentions towards rising prices. This may have been an unintended consequence but is a policy error.
- Similarly, rises in tax on rateable value (TRV) have been below the rate of inflation since 1995, so decreasing one of the real on-going costs of property ownership. The effect will have been to make owner occupation more attractive and is a policy error. The burden of TRV is well below the equivalent level in the UK.

- The review of the RV regime provides an opportunity to put in place a more sensible property tax system. The abolition of treizieme should await this and only be implemented when the changes can be made together.

326. A number of States' housing policies are presently under review and this provides the opportunity for a more co-ordinated and integrated strategic approach to housing issues. This needs to cover all parts of the housing sector and both the demand and supply sides of each of the parts of the sector. In particular;

- There has been too little attempt to influence demand, or recognise the impact of policy on demand, with the emphasis of strategy almost wholly on the supply side.
- The intellectual basis for the system of housing subsidies is confused. It is unclear whether a market efficiency and/or market equity basis for subsidy payments exists.
- The case for a market efficiency based policy encouraging owner occupation is weak and unconvincing.
- If it is market equity concerns that underlie housing policy, then the provision of MITR subsidy to all owner occupiers and SHLS loan subsidy to all those first time buyers accepted for a loan, looks to violate equity principles as no allowance is made for "income need" in their provision.
- The lack of provision of any subsidy payments to private renters, equivalent to the support offered States' tenants through the rent rebate scheme (RRS), also violates the equity principle that those in the same financial circumstances should be treated equally, as some private renters will be "income poor".

327. Housing demand has been largely fuelled by macroeconomic policies which have lead to low unemployment and real income growth, but also lax monetary conditions, with some microeconomic housing policies exacerbating the situation. The prospect for interest rates in the UK has changed in recent months and is now unclear, but there is a possibility that the next move will be down, which would have undesirable consequences for Guernsey, given monetary conditions are already lax. Historically, housing supply increases have been insufficient to prevent rising prices.

328. A number of areas need to be taken forward . These include, in broad timing order ;

- Implement the recommended changes to the house price index (HPI) methodology and publication of the quarterly HPI as soon as possible. This requires little substantive policy debate and would allow some public comment to be made on the local housing market by the authorities.
- Consider whether further examination of some key issues, such as the distribution of individual and household income, the private rented sector, and the efficiency of the planning process is needed, in order to provide a more complete analytical foundation for a programme of long term housing policy reform.

- Review the basis, and open debate on, housing policy and subsidies (including States' rents and the rent rebate scheme) - to cover the market efficiency and/or market equity reasons for market intervention. If the latter, market equity concern, is the justification for policy then review the meaning to be ascribed to equity and try to establish consensus.
- Following on from the above, develop a package of measures to address the immediate and longer term housing problems. Such a package is likely to have a number of elements, each of which will impact over different time frames. In the previous section of this report some 15 policy options were considered, ranging from adjusting macroeconomic priorities, which would require change to macroeconomic management and fiscal policy, through to detailed tax and subsidy changes.
- Introduce the agreed changes. More immediately, delay the abolition of trezieme and integrate the development of the new RV regime with a wider review of property taxes.

Annex 1 : Objectives of the study taken from the terms of reference

Aims

The aims of the study are to carry out a broad-based review of the operation of the Local Housing Market in Guernsey and to identify and assess measures that can be taken to control house price inflation and influence supply and demand within the market.

Elements to be covered in the study

1. *A broad-based review of the operation of the Local Housing Market in Guernsey including;*
 - *the operation and efficiency of the Guernsey Local Housing Market*
 - *identification and assessment of the factors which drive supply and demand, including the influences of population growth and declining household size*
 - *identification and analysis of the factors influencing the prices of houses, including external influences (if any)*
 - *an assessment of the influence of mortgage tax relief and conveyancing costs (document duty and treizieme ¹⁴⁴)*
 - *a comparison of the differentials between Local and Open Market house prices, in so far as they impact upon the availability of property for purchase by persons legally resident in Guernsey*
 - *a review of private sector rental costs and their relationship to other sectors of the housing market ¹⁴⁵*
 - *comparison of data with other national or regional housing markets with similar economic circumstances, including Jersey.*

2. *A review of current housing finance mechanisms, both bank mortgages and States Housing Loans, including;*
 - *an assessment of how house purchases are financed by the “average” household*
 - *mortgage lending policies*
 - *an examination of ratios of house prices, in relation to borrowing capability*

3. *A specific review of the impact, if any, of States Housing Loans on the current housing market, in terms of;*
 - *supply and demand*
 - *affordability of housing*
 - *effect on house prices*

¹⁴⁴ A 2 per cent tax on the price of realty

¹⁴⁵ The Housing Authority is currently conducting a review of rents and rent rebates in the public sector

4. *A specific Review of the House Price Index, including;*
 - *its method of computation*
 - *frequency of reporting*
 - *effect, if any, of these on house prices*
5. *An assessment of the role of property prices on inflation.*
6. *An appraisal of the various options available for government intervention in the housing market, including what effect the various measures may have on;*
 - *housing affordability and house prices*
 - *housing availability (supply and demand)*
 - *States funding requirements.*

Annex 2: Individuals met during the research phase

Mr C Billson	Long Port Properties
Mr A Bisson	Bristol and West International
Mr M R Burton	Cadastre Department
Mr D Clarke	Advisory and Finance Committee
Mr R Domaille	Advisory and Finance Committee
Mr K B Enevoldson	Martel Maides
Mr K R L Foreman	Income Tax Authority
Mr R A Gill	Rihoy & Son
Mrs A Hughes	Advisory and Finance Committee
Mr N Jones	ComProp
Mr W Lockwood	Island Development Committee
Mr J Ogier	Board of Industry
Mrs F Rose	Island Development Committee
Mr K Tough	Greffier
Mr R Travis	R G Falla
Mr G Wilkinson	Chaumiere Homes Limited

Annex 3 : Mortgage interest tax relief in the UK

1. Prior to 1974-75 all interest on loans for the purchase or improvement of property qualified for tax relief in the UK. [This unlimited relief is the situation in Guernsey today]. Under the 1974 Finance Act relief was restricted to a loan ceiling of £25,000. This was a substantial upper ceiling. The average house price in the UK at the time was £10,800, with the average price in Greater London being £13,700¹⁴⁶. Almost all property loans therefore qualified for tax relief.
2. MIRAS (mortgage interest relief at source) was introduced in April 1983 and the limit raised to £30,000 for relief. This increase did not restore the 1974 level of generosity as the average house price by 1983 in the UK was £29,400, whilst in London it had risen to £36,800. Many more loans now only qualified partly for tax relief.
3. Since 1983 MIRAS has been increasingly scaled back under pressure of arguments both from the financial side (the cost to the Treasury from the revenue foregone) and from the economic side (the subsidy to the purchase of, or investment in, a particular type of asset and the distorting effects of that subsidy)¹⁴⁷.
4. In 1988 mortgage interest tax relief was withdrawn from new loans for home improvement. In the same year multiple tax relief, where unmarried couple could each claim relief, was abolished.
5. From 1991-92 higher rate tax relief was abolished and the rate of tax relief was restricted to the basic rate (then 25%).
6. The rate of tax relief was lowered to 20% from April 1994, 15% from April 1995 and 10% from April 1998.
7. MIRAS was withdrawn generally from April 2000.

¹⁴⁶ DETR/CML basis.

¹⁴⁷ There were long running debates about the subsidy given to owner-occupation, see, for example; M Clarke, *Too Much Housing? Lloyds Bank Review*, October 1977; B Kilroy, *Housing Finance - Why So Privileged? Lloyds Bank Review*, July 1979, pp.37-52; M Ball, *Housing Policy and Economic Power : The Political Economy of Owner Occupation* (London : Methuen, 1983); J Ermisch, *Housing Finance : Who Gains?* (London : Policy Studies Institute, 1984); J Hills, *Unravelling Housing Finance : Subsidies, Benefits and Taxation* (Oxford University Press, 1991).

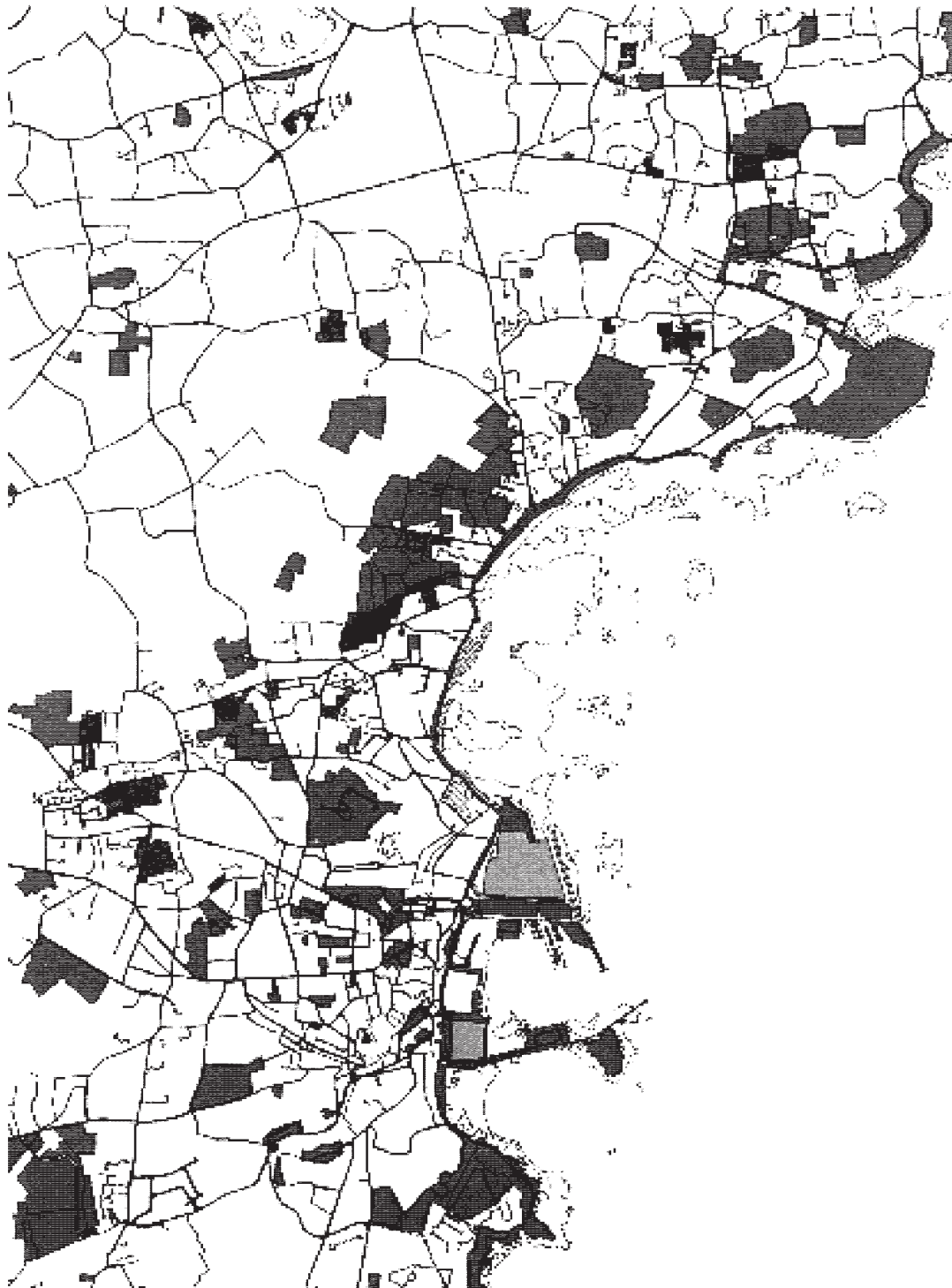
Annex 4 : Stamp duty in the UK

1. A multi-tiered rate of stamp duty on land and property, ranging from 0-2%, existed until March 1984, when it was replaced by a unitary rate of 1% levied on the full value of purchases exceeding a price of £30,000.
2. The nil threshold was temporarily increased to £250,000 between December 1991 and August 1992 during the depths of the housing market recession (in order to support prices and prevent further negative equity). The nil threshold was permanently raised to £60,000 from March 1993. This uprating more or less reflected the increase in house prices since 1984.
3. From 1997 on, as the rate of house price inflation has accelerated, the government has progressively raised stamp duty in an attempt to cool the rate of price increase—the reverse of the policy adopted in the recession.
4. In 1997 a tiered system was reintroduced. The 1% applied on properties from the threshold of £60,000 upto £250,000. 1½% applied on the full value of properties in £250,000 - £500,000 range. 2% was levied on the full value of properties above £500,000.
5. In 1998 the rates were increased to 2% for properties in the £250 - 500,000 range and 3% for above £500,000.
6. In 1999 the rates were increased to 2½% for properties in the £250 -500,000 range and 3½% for above £500,000.
7. In 2000 the rates were increased to 3% for properties in the £250-500,000 range and 4% for above £500,000.
8. In 2001 main stamp duty rates were left unchanged, though scrapped on transactions in the poorest communities in a package of measures aimed at speeding up the regeneration of certain towns and cities.
9. The 2002 budget also left main rates unchanged but tried to reform stamp duty procedures, rather than rates, in an attempt to tackle a growing problem of avoidance, especially on commercial transactions, and to allow the introduction of paperless electronic conveyancing. The aim is to make the house buying process faster and more efficient.
10. The current regime so comprises a zero band (upto the £60,000 threshold) and quite strongly progressive rates thereafter of 1, 3 and 4%.

Annex 5 : States ownership of land

States owned land is marked in red. The first map is of the whole island. The second map is larger scale and is of the St. Peter Port- St. Sampson urban corridor.





Annex 6: The Guernsey House Price Index (GHPI)

Price Indices: Background

1. A price index expresses the average price of an entity, be it a single product or a basket of products, at a given point in time in relation to a base period. In the base period the index is, arbitrarily, set at 100. Thus, if a price index for a product is set at 100 in the year 2000 and increases to 118 in 2001, this is equivalent to a price rise of 18% over the year.
2. Price indices are in wide use in the UK and elsewhere. They can be constructed for very broad ranges of products and services (such as general wholesale or retail prices), for narrower ranges (such as commodity or share prices), or for quite specific products (such as telephone and electricity prices). Price indices are calculated in both the government and the private sector. For example, the UK's general retail price index (RPI) is calculated by government statisticians and is often used for indexing many state monetary payments, such as pensions or tax allowances. The Financial Times- Stock Exchange 100 Share Index (FTSE 100), commonly known as the Footsie, is calculated by the London Stock Exchange and is widely used as both a key stock market indicator and as the basis for many financial derivatives contracts. Specific product price indices, such as the average call price of British Telecommunications phone calls, are used for price regulation purposes by regulatory bodies. Both general and specific price indices are also used by private companies for benchmarking and contractual purposes. Thus, price and cost indices are widely used in both the public and private sectors.
3. Constructing a price index from a data set of price observations is not straightforward. There are several general index number problems. These include:
 - The choice of measure of central tendency to be used in the index – mean, median, mode or other.
 - The weighting of observations, e.g. the Laspeyres versus the Paasche index^{A1}.
 - Dealing with qualitative changes in the product being surveyed over time, leading to the calculation of hedonic price indices^{A2}.
 - The frequency of calculation of the index – e.g. annually, quarterly or monthly.
 - Devising robust and representative data-sampling procedures if the number of price observations is so large that not all can be collected.
 - Making statistical adjustments for seasonality.

^{A1} For a discussion of index theory refer to A. Deaton and J. Muellbauer (1980) *Economics and Consumer Behaviour*, Cambridge University Press.

^{A2} See Griliches, Z. "Hedonic Price Indices for Automobiles", in Griliches, Z. (ed.), *Price Indices and Quality Change: Studies in New Methods of Measurement*, Harvard University Press.

4. The choice of a measure of central tendency is a key issue and, together with the weighting of data, it is arguably the most important factor in many practical applications.
5. Each measure of central tendency has different statistical properties and the final choice has to take these into account. For instance, small sample environments will make the median more effective than the mean, one reason being that small samples tend to have outlying observations that affect the mean but not the median.
A³.
6. Qualitative issues may be important, too: with average new car prices, for example, the qualitative improvement in the car each year can be significant. Compare, for example, a 1950s car with a 2002 car on the measures of comfort, ride, safety, speed and equipment. Price indices have to recognise this and allowances have to be made in the interpretation of index movements, even if this cannot be done mathematically (refer to note A2 for a seminal example).
7. The choice of data frequency is clearly important. The intended uses of the index play a key role in determining the frequency. For instance, a House Price Index may be incorporated into the monthly or quarterly RPI but may also be needed for annual administrative purposes, such as setting council taxes and housing policies.
8. Another issue might be whether enough data is available as frequency is increased, in the search for more timely policy updates. Ultimately too few data may impair the ability of the chosen measure of central tendency to track price changes accurately over time. If the mean performs adequately well, with 80 observations of symmetrically distributed data at a quarterly frequency, this is unlikely to remain the case when we narrow the data down to a monthly frequency.
9. Heterogeneity of the underlying objects that are being measured is also an issue. For instance, the UK's RPI is a mammoth data collection task covering billions of retail transactions each year. Sophisticated data collection and sampling techniques are used to ensure that it is representative and the weighting of each sampled transaction is of key importance. One recent trend has been towards developing hedonic indices reflecting, as far as possible, the qualitative aspect of the underlying data. Both where data sets are large and where qualitative adjustments are to be made, sampling procedures are crucial to ensuring that the index is representative.
10. Seasonality may be an issue, and adjustment may have to be made to the data in order to avoid misinterpreting seasonal patterns for systematic price changes.

^{A3} For a practical example see: W.H. Greene (2000), *Econometric Analysis, Fourth Edition*, Prentice Hall, pp. 171-174.

House Price Indices: methodological issues

11. In the context of housing many of these general methodological problems are evident.
12. Key issues affecting the choice of a robust measure of central tendency include questions such as:
 - should all transactions be included or should some very high/low values be excluded?
 - if so, should we trim or top-tail the data, and by how much – 1%, 2.5% or 5%?; and
 - is the mean the best measure of central tendency?
13. Because housing is not a homogeneous product, it needs to be determined whether the aggregate index of all housing types is adequate. This depends on what the index is used to measure, as well as the environmental and socio-economic factors of the geographical area being analysed.
14. As far as weighting is concerned, one needs to determine whether to use the actual number of transactions (sales) in the current year, the past year or another base year. In addition, one should consider whether the weighting fully reflects the percentage of houses in each of the categories in the total housing stock, or whether other factors should be accounted for as well. The solutions again depend on what is being measured. For instance, most house price indices are transaction indices – the market value of houses sold. They do not measure the average value of all houses in an area whether sold or not – though it might be expected that over time the transaction and stock values should be similar. Nor do they measure prices of specific types of property.
15. Qualitative factors need to be controlled and taken into account in the analysis wherever possible. For instance, an influx of one-bedroom flats into the market in a specific quarter is likely to depress the average price significantly for that quarter. However, a casual viewer of the index unaware of this fact would simply conclude that the average house price has decreased over this period. Hence, qualitative factors are an important ingredient of a well-engineered index. However, it can be difficult to incorporate qualitative factors into practical applications for administrative and logistical reasons.

House Price Indices in the UK

16. Various house price indices exist in the UK. It is instructive to examine some of these in a comparative fashion to see the approach taken in the context of the methodological issues previously raised. However, it should be kept in mind that

Guernsey is an altogether different case, with far fewer transactions taking place in what can be labelled as two distinct and mutually exclusive (Local and Open) markets.

17. Three main indices exist in the UK – the Halifax, the Nationwide and the Land Registry. The Office of the Deputy Prime Minister also publishes an index and there are two newer less authoritative indices, called Rightmove and Hometrack. The problems and defects of all these indices has led the government to announce plans for another house price index to be built up by the National Statistics agency^{A4}.
18. The Halifax House and Nationwide Price indices are arguably the most advanced; these display many common features and the overall methodological stance is very similar (both feature the involvement of Joe Nellis from the Cranfield School of Management). Both methodologies depart from the ‘hedonic’ approach to price measurement, which means that the valuation is associated with a particular set of physical and location-specific characteristics displayed by the property, as discussed above. Both indices are based on the prices at the approval stage of their individual lending each month. Because they are published monthly they are widely used as indicators of the market.
19. The Halifax House Price Index currently registers some 13,500 purchase transactions per month, and Nationwide has a similar number, both are based *only* on the transactions that these mortgage providers leverage. On the whole, to compensate for any potential bias arising from this selection bias, their indices are designed to take into account the underlying qualitative and environmental factors of the properties to ensure that they are representative of the average UK stock of houses.
20. Nationwide, for instance, distinguishes between five types of house (detached, semi-detached, terraced, flats and bungalows), two types of buyer (first-time buyer and former owner/occupiers) and three property ages (new, modern, older). The cleaning stage is designed to exclude, *inter alia*, re-mortgages and properties above £1 million. Furthermore, there are minimum requirements for each property in terms of floor area: for example, a detached house must be at least 400 sq. ft. Halifax uses a similar classification.
21. The Nationwide (and Halifax) index has been criticised for being based on property valuations at the time the mortgage is *approved*, rather than *completed*, and therefore for measuring house prices that never reach the completion stage. However, Halifax argues that this procedure has the advantage that the price information is more up-to-date and is on a more consistent time-base than

^{A4} More details on each of the current indices are in *Financial Times*, Property boom lays the foundations for more surveys tracking the market, 30th August 2002, p.4. See also, *Financial Times*, Government to publish house price index, 5th November 2002, p.6.

completions data, given that the time between approval and completion can vary significantly.

22. We now explore some aspects of Nationwide's methodology. The sampled house prices are disaggregated into their constituent characteristics using regression analysis. The same approach is employed by Halifax.
23. So, for each time period, a set of n house prices, p_j , ($j = 1, 2, \dots, n$) is recorded. As discussed above, price differences in these properties are motivated by both qualitative and quantitative characteristics. Examples of qualitative characteristics are type of property, region, and proximity to transport links etc. Quantitative factors are objective characteristics such as property age, number of rooms, garden size, garages, number of bathrooms etc.
24. For each house, we can represent the price, p_j , as a function of these observable characteristics x_{jk} , and the error term ε_j (which is assumed to be entirely random and statistically well-behaved). This linear relationship can therefore be written as:

$$p_j = \beta_{const} + \beta_1 x_{1k} + \beta_2 x_{2k} + \dots + \beta_{in} x_{jk} + \varepsilon_j$$

All of the β_{jk} coefficients are associated with the qualitative and quantitative variables x_{jk} . These coefficients indicate the relative strength of the effect arising from each of the x_{jk} variables in explaining the variation of house prices for each point in time.

25. In a nutshell, the OLS estimates above are then multiplied by a set of weights in order to estimate the price of a weighted house (this being the average UK house). Mix-adjusting ensures comparability over time despite the fact that the observed mix of characteristics tends to vary between different time periods (e.g. from quarter to quarter). In sum, to ensure consistency, a representative set of weights is applied, corresponding to the numbers of each of the characteristics observed in a chosen base period.
26. Hence weights are crucial to ensure comparability over time. The proportions of the qualitative variables and the means of the quantitative variables present in the base period (for instance Halifax adopted 1983 as a base period) are kept throughout as the reference point. Hence, each index is best interpreted in the context of its own change over time, rather than compared in absolute terms with other indices at any particular point in time.
27. Hence the fact that Nationwide and Halifax House Price Indices are mix-adjusted ensures that representative house prices are monitored over time, rather than taking the simple average price for each time period. One obvious advantage over

employing a simple average price such as that used by the Land Registry is that it is not influenced by a change in the proportion of different property types, locations etc. of houses (the mix). For instance, the mix-adjustment serves as an instrument to control for the fact that Nationwide's client base is predominantly in the south.

28. Nationwide finds that the location, the type of neighbourhood, type of house and house dimensions are the three most important house price determinants. Despite some differences, most notably in the underlying house stock sampled, in the long run Halifax and Nationwide follow similar patterns.
29. House prices are slightly seasonal - that is, prices are higher at certain times of year irrespective of the overall trend. This tends to be in spring and summer, when more buyers are in the market and hence sellers do not need to discount prices so heavily, in order to achieve a sale. The effect on prices over the year is in the UK of the order of +/- 2%; however this is much smaller than the change in the volume of property transactions.
30. Nationwide estimates the seasonal effect twice a year, in June and December using ARIMA (Autoregressive Integrated Moving Average^{A5}) techniques in the context of a multiplicative model. This process produces a seasonal factor for each observation in the index series. Dividing the observed index by the corresponding seasonal factor gives a value for the index adjusted for seasonality. The seasonal factor for a given month or quarter will change over the time-span of the index series. When the seasonal factors are updated, it results in the seasonal index series being revised (calibrated), albeit usually very slightly.
31. The Land Registry, unlike the Nationwide and the Halifax, includes all property transactions, irrespective of whether these have been financed with a mortgage or not. This is because the Land Registry registers all transactions made by conveyancers in England and Wales at the transfer of deeds stage. Hence all of the (approximately) 100,000 monthly property sales are recorded, but only computed and published quarterly, and there are no issues concerning weighting to achieve a representative sample. Even so, some argue that the reliability of average price breakdowns can suffer in certain months due to small samples for certain categories. There is no mix adjustment or seasonal adjustment. Another major drawback of this approach is that because prices are measured at the completion stage - which can take anything from one month to six months after the price has been agreed - this index is often not a good representation of *current* prices due to the long time lag, made worse by its quarterly publication. The prices that make up this index are simply actual, unadjusted averages drawn from the great majority of all residential sales in England and Wales completed during the period.

^{A5} For an introduction on ARIMA and ARMA models see Walter Enders (1995), *Applied Econometric Time Series*, Wiley Series in Probability and Mathematical Statistics.

The Guernsey House Price Index (GHPI): Construction and Issues

The Data-Gathering Process.

32. The first phase consists of obtaining the quarterly data from the Greffe's Conveyancing Book. All the transactions are recorded there and consequently there are no sampling issues to be concerned with. All transactions are inputted into a laptop at the Greffe and are distinguished as pertaining to the Local or Open markets via the Cadastre number attached to each plot. Inter-family transactions are subsequently eliminated when the data are cleaned.

33. This procedure is relatively straightforward but being paper-based is open to errors and lacks versatility. If the data were inputted in a spreadsheet package (such as Microsoft Excel) at the Greffe there would be scope for more accurately cleaning the data, more flexibility and more standardised screening procedures.

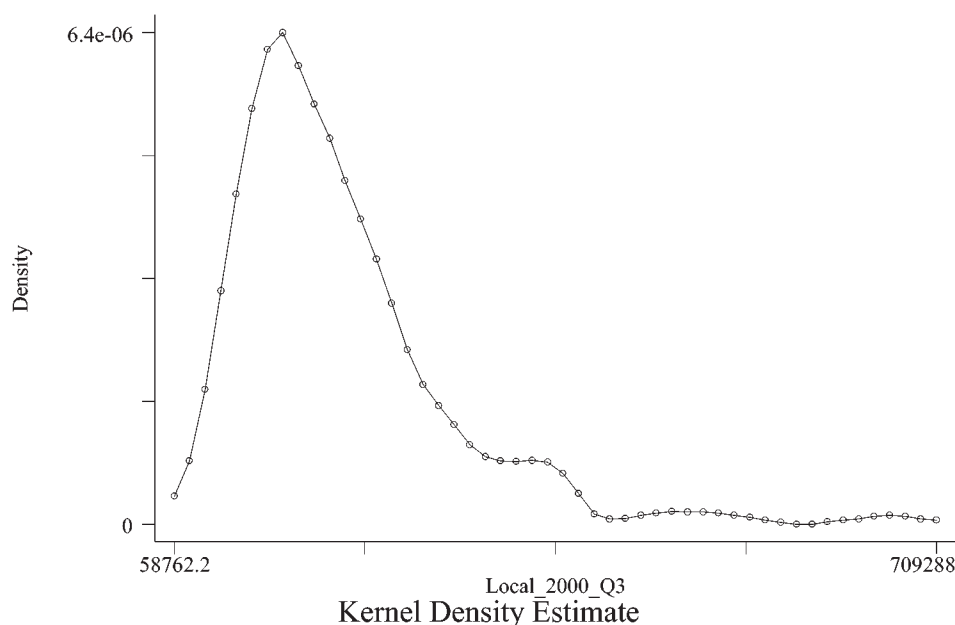
The Guernsey House Price Index (GPHI)- Issues

- Overall emphasis on Local Market
 - Data gathering stage: collecting data at the Greffe
 - Statistical Issues:
 - Mean vs Median
 - Skewness
 - Top-Tailing 2.5% and 5%
 - Transactions
 - Seasonality
 - Newly built properties are not included
 - Houses sold to companies must be categorically excluded
 - Publishing a quarterly update on the housing market
 - Yearly review of the housing market in Guernsey
34. It emerged from the meeting with the Economics and Statistics Unit (ESU) (held on 26 June 2002) that the emphasis is on the Local Market, on which the analysis has consequently been focused.
35. The current set-up consists of a transaction-based index where the Local and Open Market are separate entities. The average house price is calculated via a simple mean in each of the two markets. The only adjustment is performed on the local market where the dataset are top and tailed by 2.5%. Open market data are left as they are with no adjustments. Ultimately there seems no sound or obvious

statistical reason to implement top and tailing; or why only the Local Market should be subjected to this adjustment.

36. In order to establish whether the mean is indeed a good measure of central tendency in the context of the Local and Open markets, our analyses focused on all the quarterly house price data given to us by the ESU (pertaining to the years 1999, 2000 and 2001).
37. From this data, Probability Density Functions (Pdf) were calculated under different methodologies. Initially parametric techniques were employed and a sensitivity analysis was performed to examine how the Pdf for the various quarters would react to changes in the underlying frequency intervals. Successively, because the distributions are distinctly non-normal (i.e. non-bell shaped) and very sensitive to parametric assumptions (such as the width of the frequency intervals), we opted for non-parametric methods, and hence Kernel densities were computed.
38. For each quarter, the local house price series was examined in its unadjusted 2.5% and 5% top and tailed version and a Kernel density function^{A6 A7} was computed for each variant for each of the quarters (similar but less extensive analyses were performed on the Open Market). See below for some representative graphs from our analyses:

Figure 1a: Kernel Density Estimate of the Local Market, 2000, Third Quarter.



^{A6} See “*Kernel Regressions in Empirical Microeconomics*” by R. Blundell and A Duncan, *Journal of Human Resources*, Special Symposium on Microeconomic Methods, Vol. 333 No 1, 1998.

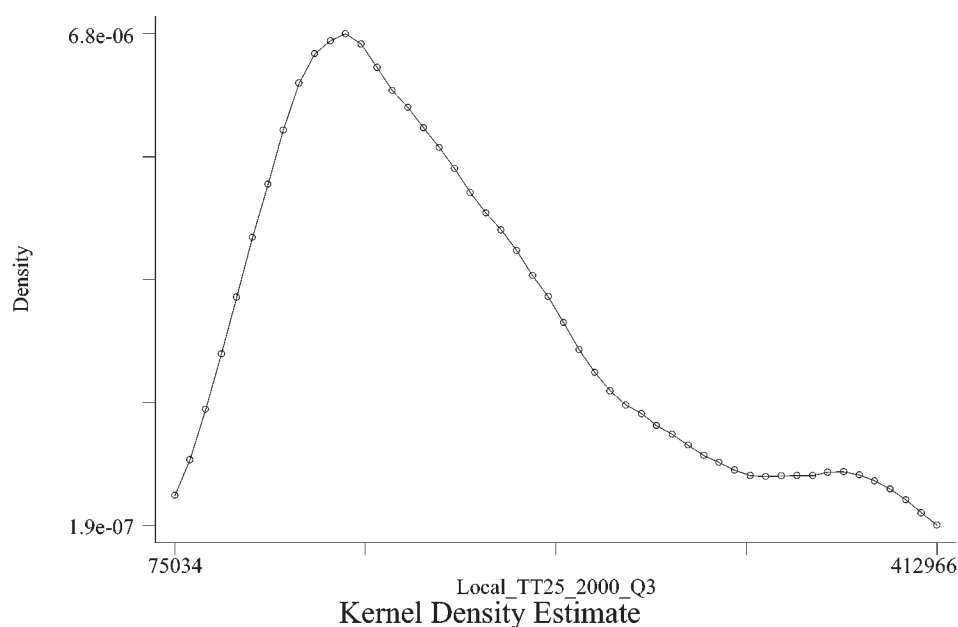
^{A7} Kernel density estimation is a technically very complex statistical technique (see references). However, in grossly over-simplified terms, a key feature of the Kernel density estimator is that it weighs observations according to an algorithm assigning greater weight to observations close to the point at which the density is estimated.

39. Figure 1a above displays the typical probability distribution of Quarterly Local House Prices in Guernsey, prior to topping and tailing. What is immediately striking is the profound asymmetry displayed. Such marked asymmetry cannot be corrected by topping and tailing the underlying house prices by 2.5% or even 5%: non-normality is too marked. The mean will consistently exceed the median - a more accurate measure of central tendency in these non-normal settings (refer to note A2).

A closer look at the relative merits of the median in these settings:

40. The median is more resilient to small sample environments and, more importantly, behaves better in the presence of the skewed distributions of Guernsey's Local market. The median is also a more stable and consistent indicator of central tendency when the frequency of the data (in our case the number of quarterly transactions in the local market) varies from quarter to quarter, as is the case in Guernsey. Indeed, to a considerable extent, the median can be seen as controlling for these qualitative factors. Note in the figures below (1b and 1c) the relatively modest impact of 2.5% and 5% topping and tailing on the overall skewness of the Probability Distribution. Intuitively, one pitfall undermining the robustness of the mean is that this measure of central tendency, in this dataset, appears to be picking up in value due to transactions that occur at the upper end of the property ladder but that are not representative of what is happening in the mid-range, or indeed in the majority of the property market.

Figure 1b: Local Market, Top-Tailed 2.5%, Year 2000, Third Quarter



41. Part of this volatility is reflective of *qualitative* changes to the stock of housing rather than tangible price changes. This is likely to be one of the drivers behind the mean's sustained volatility.

Figure 1c: Local Market, Top-Tailed 5%, Year 2000, Third Quarter

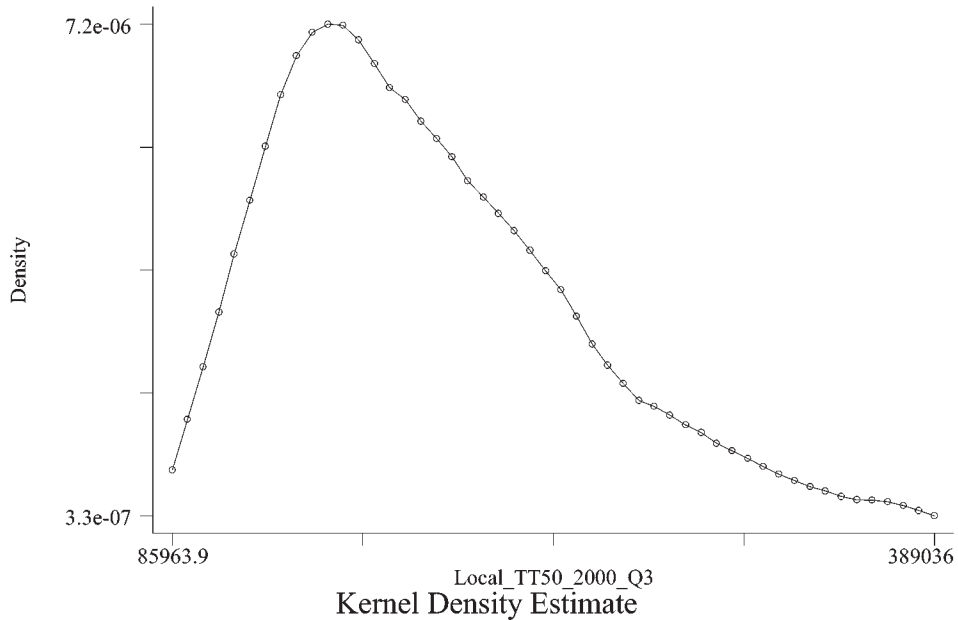


Table 1: Transactions in Guernsey's Local Market

Year and Quarter	Mean	Median	Mean-Median	Transactions
1999 Q1	170,772	145,000	25,772	166
1999 Q2	156,041	142,000	14,041	247
1999 Q3	166,301	150,100	16,201	261
1999 Q4	181,209	154,000	27,209	209
2000 Q1	183,500	154,500	29,000	158
2000 Q2	200,536	171,000	29,536	225
2000 Q3	199,318	176,000	23,318	233
2000 Q4	217,329	188,300	29,029	180
2001 Q1	217,082	193,000	24,082	216
2001 Q2	224,697	209,000	15,697	255
2001 Q3	237,701	212,000	25,701	224
2001 Q4	251,049	230,500	20,549	224

42. The median appears more robust to such spurious effects and is therefore preferred. As it can be inferred from the tables 1a-1c, the more substantial the top and tailing performed on mean house prices, the more the mean tends to converge towards the median. Clearly though, even after 5% top and tailing the gap is non-trivial. Another issue concerning the underlying qualitative aspect of the index is that newly constructed properties are not featured in the index because of administrative difficulties in obtaining the full price paid for the property.

Table 1b: Guernsey's Local Market: all figures topped and tailed by 2.5%.

Year and Quarter	Mean TT 2.5%	Median	MeanTT2.5% - Median	Transactions
1999 Q1	160,624	145,000	15,624	158
1999 Q2	152,202	142,000	10,202	235
1999 Q3	161,909	150,100	11,809	247
1999 Q4	171,267	154,000	17,267	199
2000 Q1	177,707	154,500	23,207	150
2000 Q2	189,292	171,000	18,292	213
2000 Q3	192,799	176,000	16,799	221
2000 Q4	203,616	188,300	15,316	170
2001 Q1	210,664	193,000	17,664	206
2001 Q2	221,445	209,000	12,445	243
2001 Q3	227,900	212,000	15,900	212
2001 Q4	245,533	230,500	15,033	212

Table 1C: Transactions in Guernsey's Local Market: all figures topped and tailed by 5%.

Year and Quarter	Mean TT5%	Median	Mean TT5% - Median	Transactions
1999 Q1	156,551	145,000	11,551	150
1999 Q2	150,253	142,000	8,253	223
1999 Q3	159,625	150,100	9,525	235
1999 Q4	167,674	154,000	13,674	189
2000 Q1	174,426	154,500	19,926	142
2000 Q2	185,927	171,000	14,927	203
2000 Q3	190,119	176,000	14,119	209
2000 Q4	200,321	188,300	12,021	162
2001 Q1	207,719	193,000	14,719	194
2001 Q2	217,706	208,000	9,706	229
2001 Q3	224,644	212,000	12,644	202
2001 Q4	242,508	230,500	12,008	202

43. Essentially the problems arise because new houses tend to go through the Greffe as stage payments. So purchasers buy the house at plot stage (before anything has been built) –consequently the price of this transaction is considerably less than the full sale price. The reason for doing this is to save on the payments of treizieme and document duty. Difficulties arise because is that the price recorded at plot stage is not representative of the true sale price of the house As these transactions do not subsequently pass through the Greffe, we have no way of knowing what the actual price for the completed building was.

44. Concerning the frequency of the index, quarterly appears a good compromise between frequency and sample size. A quarterly update enables the ESU to monitor the trends in the market, and take policy actions where needed. A monthly calculation would mean too small a sample, for it to be sufficiently reliable and representative. A yearly calculation would be very ineffective for policy purposes, although an annual report making use of all the data to define the state of the market at the end of each year could be useful for policy needs and longer-term planning.

Conclusions on the GHPI

- LECG conclude, after having performed detailed parametric and non-parametric analyses, that the quarterly GHPI would benefit from adopting the median as the measure of central tendency because of its superior statistical properties in the statistical environment of Guernsey's housing market.

- This option, not only is more statistically robust, but it is also practical to implement. Topping and tailing procedures are no longer necessary with the median, as this measure of central tendency is unaffected by this procedure
- As regards the frequency of calculation, quarterly should be continued. It strikes the best compromise between having a timely indicator and a sufficient number of observations on which to construct an index in the first place. A monthly frequency would imply unreliability and spurious volatility, and yearly would be too infrequent to monitor price dynamics and assist policy.
- Suitable administrative procedures should be implemented in order to take into account the newly constructed properties. We are aware that this will entail consultation and co-operation with other bodies of the States of Guernsey, but there are substantial benefits to be gained by following this path.
- A spreadsheet-based approach could usefully be implemented at the Greffe to record property transactions, benefiting the consistency of the data gathering and cleaning process. This would certainly be a positive input into the overall quality of the index. This set-up has also the advantage of being searchable. Also concerning this phase, it would be constructive for the relevant members of the ESU to consult with the Unusualities of Guernsey to see whether procedural improvements can be made in terms of data gathering procedures.
- It would be beneficial to regularly publish key housing market data, such as the index, on a quarterly basis, comparable to the publication of the RPI data, with some concise comments and graphs. This would increase price transparency and raise public awareness, resulting in a new policy tool. This could help signal when prices are overheating, or when particular trends emerge. Increased information is generally beneficial to price formation and price expectations.
- Publishing a more detailed annual report might be worthwhile (resources permitting). With annual data more detailed sectoral analyses could be performed as the number of data points would be sufficient for breaking down the property market into categories and analysing the trends within each. This should result in more precise inferences and improved long- term planning and policies.

*Deputy Roger Berry
Le Douit Farm
Les Traudes
St. Martin
Guernsey
Channel Islands*

The joint Policy Letter for the Housing Strategy and Corporate Housing Programme is an interesting paper that proposes, quite rightly that there is more co-ordination within the Housing provision committees. I support the report, for instance, in the report the Housing Authority and IDC do have excellent schemes such as refurbishment of States Houses and the introduction of planning agreements. That said I do not think the report goes far enough or fast enough.

With the mass of paperwork being produced on Housing it is perhaps an over simplification, but a basic fact that the financially better off will always be able to look after their housing needs. It is the lower paid who are the ones who are in most difficulty, whether in the rental or freehold ownership sectors.

The States have long recognised the problem of the shortage of land for need housing, its decisions of 1987 directing the provision of land for need housing are as valid now as it was then, but the IDC is still not able to designate land specifically for this purpose.

The profit margins are generally just too attractive for developers to produce low cost need housing, when they can build larger units selling at higher prices.

We as a government have still not produced a system to give the island full control over the flow of need housing land. The proposed planning agreements are a step forward but in addition I consider that it would be more effective to allow IDC, in consultation with the Housing Authority, through the Policy Planning process to introduce a new class of planning consents that enable the committee to impose conditions requiring a proportion of the dwellings on a site, or all of the new dwellings on a site to be built as need housing or moderate size units.

I recommend States Members to press for these additional measures.

R.C. Berry.

The States are asked to decide:-

I. – Whether, after consideration of the Joint Report dated the 24th January, 2003, of the States Advisory and Finance Committee and the States Housing Authority, they are of opinion:-

1. To note the contents of that interim report and approve the development of the Corporate Housing Programme as outlined.
2. To direct all States Committees to contribute to the development of the Programme where their assistance is required.
3. To note that it is the intention of the States Advisory and Finance Committee and the States Housing Authority to consult with other States Committees and with the private sector and non-governmental bodies in developing the CHP.
4. To note that the allocation of adequate resources, including human resources, is necessary to the successful operation of the CHP and that it is the intention of the States Advisory and Finance Committee and the States Housing Authority to work with the Civil Service Board and other States Committees to fulfil this requirement.

STATES ADVISORY AND FINANCE COMMITTEE**THE DEVELOPMENT OF BELGRAVE VINERY HOUSING TARGET AREA**

The President
States of Guernsey
Royal Court House
St Peter Port
Guernsey
GY1 2PB

24th January 2003

Dear Sir,

THE DEVELOPMENT OF BELGRAVE VINERY HOUSING TARGET AREA**1. BACKGROUND**

- 1.1 The States of Guernsey purchased approximately 40 acres (99 verges) of land at Belgrave Vinery and Fountain Vinery in November 1985. The vineries were originally intended to be a land bank for light industrial uses but in response to mounting pressure for further housing development, the use of the land was reconsidered and the land was designated as a Housing Target Area (HTA) in the Urban Area Plan 1995.
- 1.2 Strategic Land Use Policy at the time that the Urban Area Plan was adopted was that the Housing Target Areas were 'a means of safeguarding land to meet the housing requirement'. The 'housing requirement' was calculated to be an average of 180 homes per year, if needed, for the 5 year statutory period of the Plan.
- 1.3 The phrase 'if needed' was a crucial element of the policy which was intended to ensure that HTA land was only brought forward if monitoring indicated that there was likely to be a shortfall in meeting the 'Housing Requirement' by other means.
- 1.4 In the event, it was not perceived to be necessary to release land at Belgrave Vinery for development during the lifetime of the 1995 Urban Area Plan. Even when the strategic target was raised to enable the supply of 250 rather than 180 new homes a year, the housing land supply, as calculated by the number of planning permissions 'in the pipeline', was found to be sufficient.
- 1.5 IDC statistics show that during the 5 year period from 1st July 1997 to 30th June 2002, permissions were granted for a total of 1616 additional dwelling units (70% being within the Urban Area). This included 101 new dwellings developed on HTA land at La Vrangue and Bulwer Avenue which was released in accordance with approved Outline Planning Briefs.

development, broad development phasing, a complete traffic and access strategy, urban design guidance, environmental appraisal and a geotechnical investigation. In addition an implementation strategy is needed to address matters such as viability issues, the sewage emptying point, relocation of existing users, property purchases, highway improvements and other infrastructure provision.

- 1.12 Some of the required studies overlap with matters to be addressed as part of the preparation of the Outline Planning Brief and it is important that the work streams are fully integrated. To assist the process of integration the Advisory and Finance Committee is proposing that the studies outside the responsibility of the Island Development Committee be carried out under its direction and in consultation with the Island Development Committee and the Housing Authority to inform the preparation of the Outline Planning Brief. The cost of the studies would be charged to the Advisory and Finance Committee's consultant fees and site investigations vote.

2. POLICY CONSIDERATIONS

The Corporate Housing Programme

- 2.1 In the 2002 Policy and Resource Planning Report the Committee identified the provision of adequate housing as a matter of top political priority to be addressed through a Corporate Housing Programme.
- 2.2 One of the core elements of the Corporate Programme is to investigate land use planning which provides for sufficient housing to be created to meet strategic targets, with a range of measures to ensure that those housing opportunities are translated into development which meets the profile of local needs.
- 2.3 It is intended that this will be identified as one of the proposed 'Action Areas' within the Corporate Housing Programme.

The Strategic Land Use Plan (Strategic and Corporate Plan 2002)

- 2.4 The Strategic Land Use Plan (SLUP) sets out the current target for the provision of new housing which the Corporate Housing Programme seeks to achieve.
- 2.5 In 2002, the target figure was reviewed and increased such that Strategic Policy 1 now reads:
- “Arrangements will be put in place through the Detailed Development Plans to ensure that provision is effectively made to create 300 new homes each year”.**
- 2.6 SLUP policy for the allocation and release of Housing Target Areas is set out in Strategic Policy 4 which states: -

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- 2.6 SLUP policy for the allocation and release of Housing Target Areas is set out in Strategic Policy 4 which states: -

“Greenfield sites may be allocated as Housing Target Areas but land allocated as such will only be released for development if it can be demonstrated that there is a clear need for additional greenfield development in order to fulfil the requirement set out in Strategic Policy 1. The release of such land should be phased to give firm priority to potentially suitable or available land within built-up areas.”

The Urban Area Plan 2002 (UAP)

- 2.7 The strategic policy guidance in the SLUP sets the parameters for the preparation of the Detailed Development Plans by the Island Development Committee. In accordance with strategic policy, the overwhelming majority (90%) of the Island’s housing requirement is to be met within the Urban Plan area.
- 2.8 The UAP policies dealing with the housing requirement and the allocation and release of Housing Target Areas are Policies HO1 and HO8 respectively.
- 2.9 Policy HO1 states that the IDC “will seek to ensure that a two-year provision is effectively available for development at any one time to meet the requirement set by the States in the Strategic and Corporate Plan (SLUP)”. At 90% of the necessary provision to meet the 300 unit target this would amount to a two-year figure of 540 units to be met within the Urban Area.
- 2.10 Policy HO8 states that: -

“Proposals for new development or redevelopment in Housing Target Areas will only be permitted where: -

- a). it is in accordance with the relevant Outline Planning Brief, or
- b) the proposals are unlikely to inhibit the implementation of an Outline Planning Brief or prejudice the comprehensive development of the Housing Target Area.”

The preamble to the policy itself explains that “In order to prevent any unnecessary development of greenfield sites, the release of Housing Target Areas will be carefully controlled. Housing Target Areas will only be released for housing development, through an Outline Planning Brief, when monitoring indicates that the housing supply is insufficient to satisfy Policy HO1 or when the IDC is so directed by the States”. Further, detailed guidance on the form and content of Outline Planning Briefs and on the order of priority for the release of the HTAs is set out in Annexes 1 and 9 of the UAP.

3. MANAGING THE RELEASE OF LAND AT BELGRAVE VINERY HTA

- 3.1 Annex 9 of the UAP recognises that Belgrave Vinery HTA is a special case:

“It is by far the largest (HTA) area and it is mainly in the ownership of the States. It offers the States an opportunity to directly influence the delivery of specific types of housing to meet particular categories of housing need. There are a

number of major infrastructure issues to address, but the area is likely to be brought forward in stages during the life of the Plan.”

As such, Belgrave is given a special status outside the priority order attached to the release of the other HTAs by Annex 9.

- 3.2 At the time of writing, the latest housing statistics collated by the IDC indicate that there are in total almost 1,000 additional homes either under construction or ‘in the pipeline’ with some form of planning permission.
- 3.3 Simply in terms of meeting the Island’s housing requirement as set out in Strategic Policy 1 of the current SLUP and Policy HO1 of the UAP, therefore, there is, on the face of it, no obvious justification to warrant bringing forward HTA land for development.
- 3.4 As previously explained, however, Belgrave HTA is a special case which requires a different approach extending beyond the normal two-year housing land availability horizon established in the UAP. This is partly because the size of the site and the infrastructure issues to be resolved require a longer period of planning, site preparation works and phased implementation. It is also special, however, because of the unique opportunity it presents to use public land to help meet the affordable and social housing requirements of the developing Corporate Housing Programme over an extended period of time.
- 3.5 **In this context, the Belgrave HTA represents a particular form of housing land reserve that can be planned comprehensively but made available for development on an incremental basis as the need is identified through the Corporate Housing Programme. In this way the development of Belgrave HTA will contribute to the integration of housing and planning policies as identified in para 2.2 of this report.**
- 3.6 As Annex 9 of the UAP explains, “An essential feature of the development strategy is the managed release of greenfield housing sites, designated as Housing Target Areas, so that firm priority is given to the development of land in the Settlement Areas and on previously developed land. Managing the release of Housing Target Areas over the Plan period will help to control the pattern and speed of urban growth, ensure that new infrastructure is co-ordinated with new housing development and deliver the objective of recycling brownfield sites and regenerating run down urban areas.”
- 3.7 Through the Corporate Housing Programme it will be possible to co-ordinate the phased release of land at Belgrave with any prioritised release of land on other HTAs following the preparation and approval by the States of the necessary Outline Planning Briefs.
- 3.8 **As it is proposed to review the Corporate Housing Programme annually through the Policy and Resource Planning Report, the Policy Planning debate in July each year will provide the opportunity for the States to resolve whether any land at Belgrave and/or at other HTAs should be released for**

development. In the case of Belgrave it is proposed that the release of each phase of development land would require a States Resolution. In this way, the terms of UAP Policy HO8 (see para 2.11 of this report) will be met.

- 3.9 Having explained the broader policy context within which it is proposed to bring forward proposals for the HTA, the Committee is also committed to work with the Housing Authority, Island Development Committee and the Board of Administration to consider how land at Belgrave Vinery can best contribute to meeting the objectives of the Housing Strategy from the outset.
- 3.10 With this in mind, the Committee considers that the practicalities of enabling the States itself to undertake an early phase of development should be explored.

4. CONCLUSION AND RECOMMENDATIONS

- 4.1 **The Advisory and Finance Committee considers that the establishment of the Corporate Housing Programme provides a framework to plan for and manage the future release of land at Belgrave Vinery HTA in accordance with the strategic objectives of the States.**
- 4.2 The Committee therefore recommends the States: -
- (a) To direct the Island Development Committee, on completion and approval of the preliminary work referred to in (d) to prepare the Outline Planning Brief in accordance with the policies of the UAP 2002.
 - (b) To direct the Island Development Committee in preparing the Outline Planning Brief to have regard to the requirement that the development of the HTA shall be predominantly for housing purposes.
 - (c) To direct the Housing Authority and the Island Development Committee to work together to ensure that the release of land at Belgrave Vinery is managed on a phased basis and that it is predominantly used to provide affordable and social housing in accordance with targets to be established through the Corporate Housing Programme.
 - (d) To authorise the Advisory and Finance Committee to carry out further investigations, funded from the Committee's capital vote for consultants fees and site investigations, to enable an Outline Planning Brief and Implementation Strategy to be prepared for the phased development of Belgrave Vinery HTA.
 - (e) To direct that the release of each phase of development land at Belgrave Vinery HTA will only take place as authorised by a specific Resolution of the States.

- (f) In accordance with (c) and (e) above, to direct the Advisory and Finance Committee, after consulting with the Island Development Committee, the Housing Authority and the Board of Administration, to report to the States identifying an area within the HTA that may be brought forward for social and affordable housing development by the States themselves ahead of the preparation of an Outline Planning Brief for the site as a whole, such report to be presented to the States within six months of the Resolutions arising from the current report.

Yours faithfully,

L. C. MORGAN

President
Advisory and Finance Committee

Belgrave Vinery HTA



The States are asked to decide:-

II.- Whether, after consideration of the Report dated the 24th January, 2003, of the States Advisory and Finance Committee, they are of opinion:-

1. To direct the Island Development Committee, on completion and approval of the preliminary work referred to in proposition 4 to prepare the Outline Planning Brief in accordance with the policies of the UAP 2002.
2. To direct the Island Development Committee in preparing the Outline Planning Brief to have regard to the requirement that the development of the HTA shall be predominantly for housing purposes.
3. To direct the States Housing Authority and the Island Development Committee to work together to ensure that the release of land at Belgrave Vinery is managed on a phased basis and that it is predominantly used to provide affordable and social housing in accordance with targets to be established through the Corporate Housing Programme.
4. To authorise the States Advisory and Finance Committee to carry out further investigations, funded from that Committee's capital vote for consultants fees and site investigations, to enable an Outline Planning Brief and Implementation Strategy to be prepared for the phased development of Belgrave Vinery HTA.
5. To direct that the release of each phase of development land at Belgrave Vinery HTA will only take place as authorised by a specific Resolution of the States.
6. In accordance with propositions 3 and 5 above, to direct the States Advisory and Finance Committee, after consulting with the Island Development Committee, the States Housing Authority and the States Board of Administration, to report to the States identifying an area within the HTA that may be brought forward for social and affordable housing development by the States themselves ahead of the preparation of an Outline Planning Brief for the site as a whole, such report to be presented to the States within six months of the Resolutions arising from the current report.

DE V. G. CAREY,
Bailiff and President of the States.

The Royal Court House,
Guernsey.
The 7th February, 2003.

IN THE STATES OF THE ISLAND OF GUERNSEY

ON THE 26TH DAY OF FEBRUARY, 2003

The States resolved as follows concerning Billet d'Etat No. II
dated 7th February, 2003

**STATES ADVISORY AND FINANCE COMMITTEE AND
STATES HOUSING AUTHORITY**

**THE DEVELOPMENT OF A HOUSING STRATEGY AND CORPORATE
HOUSING PROGRAMME**

- I. After consideration of the Joint Report dated the 24th January, 2003, of the States Advisory and Finance Committee and the States Housing Authority:-
1. To note the contents of that interim report and approve the development of the Corporate Housing Programme as outlined.
 2. To direct all States Committees to contribute to the development of the Programme where their assistance is required.
 3. To note that it is the intention of the States Advisory and Finance Committee and the States Housing Authority to consult with other States Committees and with the private sector and non-governmental bodies in developing the CHP.
 4. To note that the allocation of adequate resources, including human resources, is necessary to the successful operation of the CHP and that it is the intention of the States Advisory and Finance Committee and the States Housing Authority to work with the Civil Service Board and other States Committees to fulfil this requirement.

IN THE STATES OF THE ISLAND OF GUERNSEY

ON THE 28TH DAY OF FEBRUARY, 2003

(Meeting Adjourned from 26th February, 2003)

The States resolved as follows concerning Billet d'Etat No. II
dated 7th February, 2003

STATES ADVISORY AND FINANCE COMMITTEE
THE DEVELOPMENT OF BELGRAVE VINERY HOUSING TARGET AREA

- II. After consideration of the Report dated the 24th January, 2003, of the States Advisory and Finance Committee:-
1. To direct the Island Development Committee, on completion and approval of the preliminary work referred to in proposition 4 to prepare the Outline Planning Brief in accordance with the policies of the UAP 2002.
 2. To direct the Island Development Committee in preparing the Outline Planning Brief to have regard to the requirement that the development of the HTA shall be predominately for housing purposes.
 3. To direct the States Housing Authority and the Island Development Committee to work together to ensure that the release of land at Belgrave Vinery is managed on a phased basis and that it is predominately used to provide affordable and social housing in accordance with targets to be established through the Corporate Housing Programme.
 4. To authorise the States Advisory and Finance Committee to carry out further investigations, funded from that Committee's capital vote for consultants fees and site investigations, to enable an Outline Planning Brief and Implementation Strategy to be prepared for the phased development of Belgrave Vinery HTA.
 5. To direct that the release of each phase of development land at Belgrave Vinery HTA will only take place as authorised by a specific Resolution of the States.
 6. In accordance with propositions 3 and 5 above, to direct the States Advisory and Finance Committee, after consulting with the Island Development Committee, the States Housing Authority and the States Board of Administration, to report to the States identifying an area within the HTA that may be brought forward for social and affordable housing development by the States themselves ahead of the preparation of an Outline Planning Brief for the site as a whole, such report to be presented to the States within six months of the Resolutions arising from the current report.

K. H TOUGH
HER MAJESTY'S GREFFIER