

# BACK ON THE MARKET

BRINGING EMPTY HOMES  
BACK INTO USE

**BRIEFING**

Bill Davies

December 2014

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## ACKNOWLEDGMENTS

We are grateful to the Oak Foundation for generously supporting our housing research programme, of which this is a part.

The author would also like to thank colleagues Tony Dolphin and Nick Pearce for their comments on an earlier draft.

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Davies B (2014) *Back on the market: Bringing empty homes back into use*, IPPR.

<http://www.ippr.org/publications/back-on-the-market-bringing-empty-homes-back-into-use>

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## Background

In the midst of a national housing crisis, there are homes in England gathering dust. In many parts of the country, there are simply not enough homes to support the existing population, and across all regions of England (Schmuecker 2011) there is a growing mismatch between the supply of homes and the demand for them. A lack of suitable accommodation drives up houses prices and rents, and increases the incidence of homelessness.

Despite this national crisis, there remain a large number of homes in England that have nobody living in them, and the incentives to bring homes quickly back on to the market are limited. This short note looks at the numbers of empty homes, assesses the policy environment which might constrain these numbers, and reflects briefly upon further action which could be taken to right the imbalance.

## What is an empty home?

Empty homes are properties that are unoccupied. They may be empty as they wait to come onto the market, sit empty despite being available for sale or rent, or be held off the market as an asset. Under government regulations and guidance, empty homes do not include owner-occupier second homes, which despite being empty for much of the year, are differentiated from 'true' empty homes by the absence of core items of household furniture – in official terms, this kind of property is 'substantially unfurnished' (DCLG 2014a).

Homes will be vacant for various reasons. They may be property investments where no tenants are sought, it may be that property has been inherited after the death of a relative and is awaiting resale, or the dwelling may be used only for a few weeks of the year. Empty homes may also be present where housing markets are weak and neither buyers nor tenants can be found. It may also be that the resident of the home has moved into care, thus reclassifying their principal private residence as a second home.<sup>1</sup>

Short-term vacant properties are a natural part of the housing market, occurring as estates are disposed of, as sellers await buyers, or as landlords await new tenants. Where short-term vacancies and gaps in tenancies (known as voids) exist, these will usually be quickly filled, particularly in markets where demand for properties is high, such as in central London. In these cases, the state has little interest in intervening.

Where public policy does have an interest is when properties are left empty over the long term, given that the state is often left to assume the costs of finding housing for people who cannot access it. In 2013 there were around 1.6 million people on social housing waiting lists (DCLG A) and 82,000 homeless households (DCLG B). The number of long-term empty homes (unoccupied for more than six months) is large – at over 200,000 homes, it is roughly equivalent to the new stock required each year to meet demand in England (see Griffith and Jeffreys 2013). Making this additional supply available would help to relieve some of the pressure on rising rents and house prices, and so public policy should focus on bringing as much of the long-term vacant stock back onto the housing market as possible.

## How many are there?

There are estimated to be around 635,000 empty homes in England. Of those, 216,000 homes (or just over one-third) have been unoccupied for longer than six months (DCLG C), including some 22,000 of which are in London, where housing pressures are particularly intense.

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<sup>1</sup> In this instance, council tax liabilities on that empty property are waived entirely.

**Table 1**  
Empty dwelling stock, England, 2013

|                          | All empty dwellings | Long-term empty dwellings | Long-term empties, as share of all empty dwellings |
|--------------------------|---------------------|---------------------------|----------------------------------------------------|
| East Midlands            | 57,317              | 20,069                    | 35%                                                |
| East of England          | 61,741              | 18,917                    | 31%                                                |
| London                   | 59,313              | 21,852                    | 37%                                                |
| North East               | 40,411              | 15,811                    | 39%                                                |
| North West               | 114,882             | 43,698                    | 38%                                                |
| South East               | 89,010              | 25,751                    | 29%                                                |
| South West               | 65,641              | 19,315                    | 29%                                                |
| West Midlands            | 65,490              | 22,692                    | 35%                                                |
| Yorkshire and the Humber | 81,322              | 27,945                    | 34%                                                |
| <b>England total</b>     | <b>635,127</b>      | <b>216,050</b>            | <b>34%</b>                                         |

Source: DCLG 'Vacant stock by local authority district, England, from 2004', table 615 (DCLG C)

It is also notable that the vast majority of these homes are in private hands, with private owners accounting for 91 per cent of all empty dwellings (DCLG C). Vacant social housing properties make up a very small share of the market, because local authorities and housing associations face substantial waiting lists and are bound by allocation rules, homelessness obligations and choice-based lettings systems, which together ensure that available social stock is largely utilised to good effect. While it is not possible to break down this ownership data further, it is reasonable to assume – on account of all these measures that apply to social housing providers – that of all *long-term* empty dwellings, the private sector share is likely to be even higher than 91 per cent.

The challenge, then, is to bring more of these homes back onto the market.

Doing so, however, will need to be spatially sensitive – there are significant differences in the share of all dwellings that are out of use (vacant) in each region, ranging from 4 per cent in the North West to 2 per cent in London (EHA 2014). Equally, there will be different causes for this from region to region – care should be taken, for example, not to punish landlords who are doing what they can to attract tenants.

### What is policy doing, and what could it do?

The problem of empty homes is recognised by the Coalition government, which states:

*'The government is committed to helping local people bring empty homes back into use. This is a sustainable way of increasing the local supply of housing and reducing the negative impact that neglected empty homes can have on communities.'*

HM Government 2014

The instruments afforded by central government cover a number of bases, including (ibid):

- investment in 12,000 'problematic' empty homes
- extending the New Homes Bonus to empty homes
- providing councils with the flexibility to levy additional council tax on long-term empty properties

- adjusting empty dwelling management orders to target empty homes seen as a nuisance
- appointing an independent empty homes adviser (George Clarke, architect and TV presenter).

In terms of fiscal measures, there are two main strands of policy, rooted in the existing tax regime. The first concerns the availability of discounts on second homes. Until recently, owners of second homes were offered discounts on their council tax liabilities, on the logic that if the owner of the property is not usually resident then their draw on locally funded public services is limited. More recently, however, policy has been revised to curtail automatic council tax discounts, and now permits local authorities to determine what discounts will apply:

*'From 1 April 2013, in England, second homes may be charged 100% of their normal rate of council tax. "Unoccupied and substantially unfurnished" properties will be subject to a discount of anything between 0% and 100% of their council tax, at the discretion of the billing authority. Properties undergoing "major repair work" or "structural alteration", which are vacant, will be subject to a discount of any amount between 0% and 100%, for a maximum of 12 months.'*

Sandford 2014<sup>2</sup>

Second, where a property is barely in use at all and 'substantially unfurnished', the local authority may also establish a council tax premium (effectively equal to a small multiple of the property's current tax liability). In this case, 'properties which have been unoccupied and substantially unfurnished for over two years may be charged up to 150% of the normal liability' (Sandford 2014).<sup>3</sup> The average council tax liability for a band D property in England is around £1,468 for the financial year 2014/15, yielding a potential average band D premium of up to £734 per annum for each property that has been unfurnished and out of use for two years.<sup>4</sup>

This premium, however, appears to be applied only to a limited extent. Data indicates that, of the 216,000 homes classified as long-term empty, only around one in four are subject to the council tax premium, as shown in the following table:<sup>5</sup>

**Table 2**

Dwellings subject to council tax premium, by band

|                | 2013   | 2014   |
|----------------|--------|--------|
| < 10% premium  | 47     | 295    |
| 11–25% premium | 428    | 443    |
| 26–50% premium | 55,580 | 55,744 |

Source: DCLG Tax base Statistics (DCLG 2014b)<sup>6</sup>

- 2 A 50 per cent discount must be retained on a second home where the liable person is required as part of their employment to live in job-related accommodation.
- 3 Local authorities are able to identify long-term empty dwellings using a range of methods, including the electoral register, information from utilities companies and information from the public.
- 4 A stay of six weeks resets the clock.
- 5 In part, this catchment challenge is created by the limited incentives for owners to report whether a property is occupied or not. As the DCLG statistical briefing summarises: 'Since 2013-14, local authorities have been allowed to reduce, or remove completely, the discount for long term empty properties. As a result authorities are reporting there is a tendency for tax payers not to register with them when properties became empty because, as they were continuing to pay 100% council tax, it didn't make any difference to them. Similarly, there is also no financial incentive on the dwelling owners to report when a dwelling becomes reoccupied' (DCLG 2014b).
- 6 The majority of dwellings subject to premiums were in council tax bands A and B.

Coverage is limited in two respects. First, long-term empties are calculated on the basis of being unoccupied for six months, but are only eligible for a premium charge after two years of being unoccupied. Second, there remain a number of local authorities which are yet to use their discretionary powers, including boroughs of London (see DCLG 2014e). There is clearly scope to increase the coverage of council tax premiums, and thus to incentivise the owners of long-term empty properties to bring these back onto the market.

### Improving policy

Local authorities should be offered an enhanced set of powers to address the problem of long-term empty properties. In particular, incentives for authorities to use the powers already available to them should be heightened, in order to widen the policy net and capture more homes. To do so, two small but significant changes to current rules should be applied. The first is to remove the 50 per cent cap from the council tax multiplier on empty homes. In effect, this would **allow local authorities to determine their own banded council tax premiums on long-term empty dwellings.**

Second, local authority discretion should extend beyond rate setting to also include definitions of the properties that are subject to it – in particular, they should be able to set different long-term empty ‘thresholds’, in order to define locally what a long-term empty property is.

This would include new powers:

- **to determine the time period for which a dwelling must be empty before it becomes subject to the council tax premium – for example, to shorten this period from two years to one year**
- **to determine the length of the ‘period of residence’ which restarts the clock on the council tax premium liability.**

Discretion in these two respects would allow local government to account for differences in local housing market dynamics – such as the usual length of a gap between tenancies, and the scale of housing need – in order to determine at what point a period of unoccupation becomes inappropriate. Rules should be revised to allow local authorities to move closer to the approach taken in Scotland, where long-term empty properties are defined by a one-year threshold (rather than two years by DCLG), and the length of time a property needs to be inhabited to reset the clock is three months, instead of the English standard of six weeks (Sandford 2014). Local governments should therefore be entitled to move incrementally or at once to these thresholds, as their housing markets permit.

These challenges are not unique to the UK, and other places, such as New York City, are looking for ways to more actively respond to empty properties and sites.

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#### Empty properties in New York City

New York mayor Bill de Blasio is seeking to change the tax code in New York to bring forward empty sites and homes in city to stimulate development activity and draw in revenue. The tax change would subject vacant dwellings and sites in the city to significantly higher commercial property tax rates to encourage owners to return them to market and developers to move ahead with building work.

In addition, the mayor plans to establish a public land trust to ensure vacant assets are transferred to organisations which are likely to develop on them.

Source: Lewis 2014

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That different places are able to apply different policies is important. Some housing markets struggle with viability, and some property owners, irrespective of their efforts to improve the accommodation or lower the rent, cannot fill properties. In light of this, the application of a single nominal tax across the whole of England would be inappropriate. Instead, local authorities responsible for council tax should be able to apply an empty homes premium with more freedom, and use their new discretion to reflect the particular circumstances of their local housing market contexts.

### What kind of revenue could these new powers raise?

The primary objective of these changes is not explicitly to raise new or increased revenue, but rather to curb the number of long-term empty dwellings and thereby increase supply in the housing market. Whether or not there is such supply response, however, a premium equivalent to 70 per cent of an average band D council tax payment (or 170 per cent of the current liability) would result in an annual charge of around £1,000.

If we assume that half of the long-term empty dwellings remain vacant after a further six months,<sup>7</sup> then an annual charge of £1,000 could draw in an additional £108 million nationally. In London, this would equate to roughly £11 million. Any revenues should be retained in full by local authorities to channel into their housing markets.

**Figure 3**

National and regional value of different council tax premium options

|                          | Potential number of chargeable dwellings | Average premium of £1,000 | Average premium of £2,000 |
|--------------------------|------------------------------------------|---------------------------|---------------------------|
| East Midlands            | 10,000                                   | £10m                      | £20m                      |
| East of England          | 9,500                                    | £9.5m                     | £19m                      |
| London                   | 11,000                                   | £11m                      | £22m                      |
| North East               | 8,000                                    | £8m                       | £16m                      |
| North West               | 22,000                                   | £22m                      | £44m                      |
| South East               | 13,000                                   | £13m                      | £26m                      |
| South West               | 9,500                                    | £9.5m                     | £19m                      |
| West Midlands            | 11,500                                   | £11.5m                    | £23m                      |
| Yorkshire and the Humber | 14,000                                   | £14m                      | £28m                      |
| <b>England total</b>     | <b>108,000</b>                           | <b>£108m</b>              | <b>£216m</b>              |

Source: Author's analysis of DCLG 'Vacant stock by local authority district, England, from 2004' (DCLG C)

Using a multiplier, rather than a flat fee for each empty home, also ensures that the tax is progressive, where properties in higher tax bands would attract a higher premium. Owners of a band H property, where the average council tax is £2,936, would pay an additional £2,055 for holding it empty, making their annual council tax bill for an empty home £4,991.

### Conclusion

Long-term empty homes are a luxury we cannot afford. While empty homes account for only a small proportion of the total English housing stock – 3 per cent nationally, and just 1 per cent long-term – their exclusion from the market is a serious social problem in places where homelessness is prevalent, council house waiting lists are long, and affordable housing is in short supply.

<sup>7</sup> Council tax base data shows 56,000 (26 per cent of long-term empties) remain empty after two years, and therefore are subject to a premium. These figures are likely to be an underestimate of the potential total, as not all local authorities apply a premium, and the current rules 'reset the clock' after only six weeks.

This significant mismatch between demand for housing and supply warrants urgent action aimed at ensuring our stock is utilised more efficiently and property owners are incentivised to bring dwellings more quickly back on the market. Local authorities should be allowed greater discretion to tax long-term empty dwellings appropriately, and to ensure that those holding on to an empty property contribute more to the economic costs of providing housing for those without a home. To this end, a more flexible approach to council tax powers is part of the solution to bringing more properties onto the market.

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