JERSEY'S FISCAL POLICY PANEL

Housing Market Review

April 2024

Introduction

As a small, densely populated Island, housing is a key determinant of economic growth and wellbeing in Jersey. In September 2023, the Fiscal Policy Panel (FPP) was asked by the Chief Economic Advisor for support in understanding the economic drivers underlying the challenges being experienced in Jersey's housing market.

The current members of the Panel are:

Dame Kate Barker (Chair, appointed 2014),

Professor Francis Breedon (appointed 2016),

Professor Richard Davies (appointed 2018).

The Panel were asked to produce a rapid review and analysis of Jersey's housing market that:

- Provides an authoritative summary of the performance of Jersey's housing market. This should span the last 15 years.
- Includes an analysis and assessment of the factors that have contributed to the performance of Jersey's housing market. These might include, but not limited to, macroeconomic and demographic factors, as well as the supply of new houses and mortgage lending factors.
- Summarises the economic impact of Jersey's housing market.
- Includes a forward look, projecting the performance of Jersey's housing market over the next 1-3 years.

The Panel has produced the following review, based on the latest data and evidence available, alongside extensive engagement with relevant stakeholders.

Contents

Executive Summary

As with all rich economies, spending on housing is a high proportion of income in Jersey. This, coupled with Jersey's relatively high income inequality (and lack of land borders) means that market rents and house prices are unaffordable for a considerable proportion of the population.

- **Jersey's housing supply has expanded.** The rate of new housing supply in Jersey was higher than the OECD average in 2011, though fell below the average in 2021.
- **The housing stock has changed.** Growth in housing stock has been concentrated in purpose-built flats, accounting for 75% of the increase in properties from 2011 to 2021.
- **Jersey has a lower homeownership rate than the UK.** 54% of households own their own properties. This compares to 67% in the UK. This is partly affected by restrictions on who can buy property in Jersey.
- **Around 8% of properties are vacant in Jersey.** This is surprisingly high given the Island's small land mass and supply constraints.
- **Overcrowding, while a problem for those experiencing it, is not particularly common in Jersey.** The same proportion of households are classed as overcrowded (having fewer bedrooms than required by the household) as in England and Wales. However, under occupation, where a household has at least two bedrooms more than required, is less likely in Jersey.
- **Access to mortgage finance has Jersey specific features not seen in the UK.** There are fewer mortgage providers, and the process for accessing a mortgage is more personal, and lender specific, potentially raising switching costs. Borrowers are likely to face higher mortgage interest rates compared to the UK mortgage market.
- **Environmental restrictions in Jersey present hard limits to development.** Development is restricted outside of the built-up area, which covers 12% of the Island. These restrictions are justified by conservation but represent a constraint on the amount of new housing supply that can be generated.
- **The planning system can also create barriers to new housing supply.** Features of the system, such as third-party appeals and delays in reaching decisions on major applications, create uncertainty over outcomes and act as barriers to bringing new supply forward.
- **Housing supply targets are difficult to develop.** They are based on estimated future housing demand which is inherently uncertain. They may

need to be reviewed when population growth or demographic trends differ from forecasts, as they have done in recent years.

- **Affordability is at historically low levels.** House and rental prices rose faster than incomes over the 8 years to 2022. An average priced house is equal to more than 13 years of net income for the average household, and this is compounded by recent rises in mortgage rates.
- **The rise in prices has many causes.** They include a period of global record-low interest rates, rising income growth and demographic change. While these factors supported demand, others have tamped down on supply, including the fall in the rate of home completions from 2012 to 2021 compared to the previous ten years.
- **A high-cost housing market can harm any economy.** Sustained productivity growth relies on a fluid job market in which the most productive firms can grow by hiring. Even the most successful businesses in Jersey are finding it increasingly difficult to attract and retain staff. This holds back their expansion, with knock on effects for productivity, output and ultimately living standards on the island.
- **The Panel's assumption is for house prices to remain stable in 2024.** However, there is a risk that prices may fall in the short-term. Affordability is unlikely to change in 2024 with base interest rates not forecast to fall until the middle of the year and inflation outpacing earnings growth. As these factors begin to ease, prices could again increase, particularly without higher rates of supply.

Key findings

Jersey's housing market is not exceptional – many other places face similar problems. But particular groups are struggling. There are several areas that would benefit from further work. These should be prioritised in terms of those that are genuinely holding back new arrivals and young Islanders from accessing housing, since the problems faced by these groups are those most likely to be holding back economic activity on the island.

1. **Social housing.** High economic inequality and high housing costs increases the need for a portion of the population to access housing at below market rent. Thus, although Jersey's share of social housing is above the OECD average, focus on delivery of housing below market rent, including key worker accommodation and social housing, would be welcome.
2. **Planning.** The FPP note that some features of the planning process in Jersey can increase uncertainty of outcomes, such as third-party appeals. The Panel recognises that there are barriers to data collection for the planning department. Greater data, such as on the length of time from registration of application to final decision, would help to ensure the planning process is efficient and low cost for the applicant.
3. **Mortgage markets**. The Panel notes that some features of the mortgage market in Jersey, such as the low number of lenders, barriers to switching and higher interest rates compared to the UK, are concerning. Further work investigating the impact of the market on interest rates and product choices offered to Islanders would be beneficial. Systematic data should also be collected on housing arrears and repossessions.
4. **Tax measures.** The Panel welcomes the phasing out of mortgage interest relief for owner occupiers. This area would benefit from further work to ensure wider taxation measures do not skew the balance between owner occupation and rental.
5. **Rental markets**. Rental data relies on advertised private rental statistics, which do not reflect actual rents. Data collection on the operation of the rental market would inform understanding of rental affordability and how rental yields compare to other investments over time.
6. **Residential status**. The seasonal labour force is important to Jersey's economy. There needs to be greater understanding of the changes in the population by residential status and the interaction of this with housing supply, to understand if planned future housing supply is reflective of expected changes in residential status.

7. **Residential space standards.** Minimum space standards should consider harmonisation with the UK where possible to encourage use of more standardised construction methods such as modular units. These types of construction methods support the efficiency of building by requiring less labour on island. Though, standards are not the only barrier to such methods.
8. **Demand measures.** Interventions that slow down adjustment of the housing market to changing economic conditions are not desirable.
9. **Vacant homes.** There is room for improvement in Jersey's rate of home vacancy. The Panel notes that the Government, through the launch of the Empty Homes Service, is working to identify long-term vacant properties and bring them back into use. Bringing vacant properties back into use is welcome in a supply-constrained area.
10. **Distribution of housing.** Given the significant increase in the share of flats in the Jersey housing stock over recent years, it is important to monitor the relative supply and price of each type of housing to ensure all needs are met.

1 History of Jersey's housing market

1.1 Housing stock

Housing stock increased from 37,627 dwellings in 2001 to 48,610 in 2021, an increase of 29%. The rate of increase was highest between 2001 and 2011, before falling from 2011 to 2021 (**Figure 1.1**).[1] Population growth was also higher from 2001 to 2011 compared to 2011 to 2021.

Figure 1.1

Housing stock

Total number of private residential dwellings, by Census year.

Source: Statistics Jersey

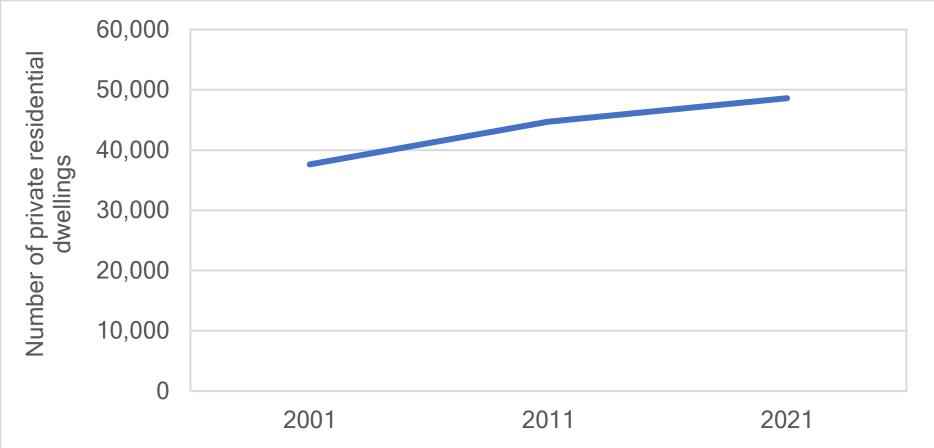


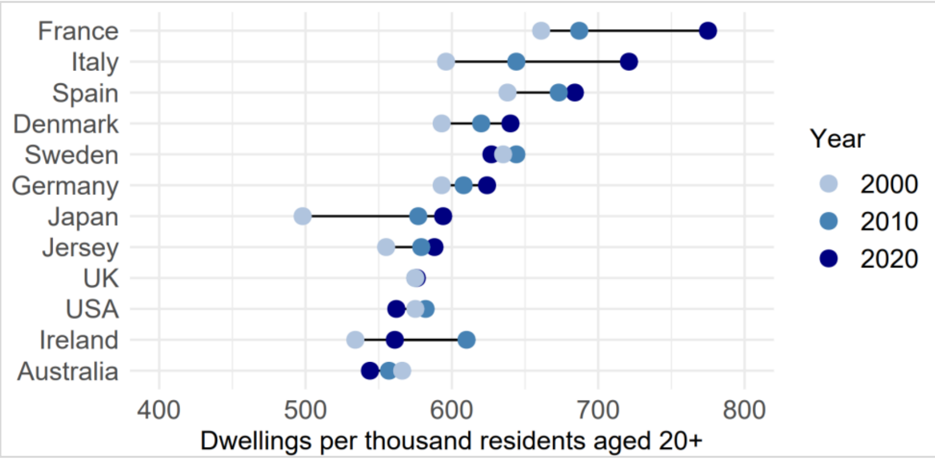
Figure 1.2 compares the availability of housing stock relative to the population in Jersey to selected OECD countries, measuring dwellings per thousand inhabitants over the age of 20. Jersey has more dwellings per thousand people over the age of 20 compared to the UK, at 588 compared to 576, but fewer than many other OECD countries.

Figure 1.2

Housing stock relative to population, 2000 - 2020

Dwellings per thousand residents aged 20+, Jersey and selected OECD countries. Years 2000, 2010, 2020 or nearest available data for OECD countries. Census data from 2001, 2011 and 2021 used for Jersey.

Sources: OECD, Statistics Jersey



[1] Private (residential) dwellings as measured by the census are not necessarily separate physical dwellings; separate dwellings are identified where the occupants shared a living space and a cooking area and may not necessarily correspond to a dwelling with a separate entrance. For example, a lodger in a private household was counted as living in a separate dwelling if there was a separate living space and cooking facilities for their use.

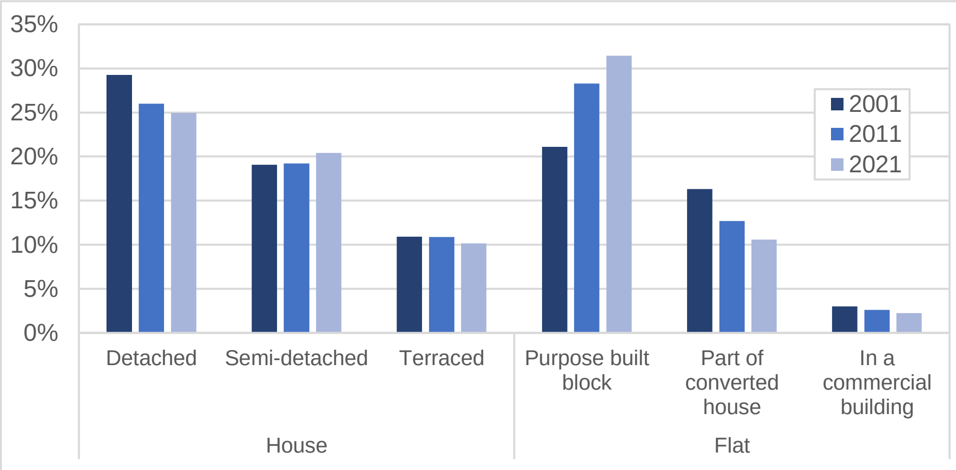
Figure 1.3 shows the how the housing stock has changed by property type. Growth has been concentrated in purpose-built flats, accounting for 75% of the increase in properties from 2011 to 2021. This has changed the distribution of dwellings by property type. In 2001, detached properties accounted for the largest proportion of properties, at 29%; however, in 2021, flats in purpose-built blocks accounted for the largest proportion of properties, at 31%.

Figure 1.3

Property type, by percentage

Percentage of private dwellings accounted for by different property types.

Source: Statistics Jersey



1.2 Vacant properties

Housing stock can be vacant for several reasons. Temporary property vacancies will occur in a housing market whilst properties are between owners or tenants; however, a high proportion of long-term vacant properties can indicate an inefficient use of housing stock. In 2021, 8.3% of dwellings were vacant in Jersey. Given differences in the measurement and definition of vacant properties, cross-country comparison is difficult.[2] However, the most comparable definition to that used in Jersey is the 'unoccupied on Census Day' metric in England and Wales. The unoccupied rate in England and Wales in 2021 was lower than Jersey at 6.2% of all dwellings, ranging from 8.2% in Wales to 4.8% in the West Midlands.[3]

Figure 1.4 indicates that the number and proportion of vacant dwellings in Jersey has increased over time. In 2021, 4,027 private dwellings were identified as vacant.[4] The reason for property vacancy could not be identified in 53% of cases, but for those where the reason for vacancy was known, the

[2] For example, second and/or holiday homes are included in the definition of vacant properties in Jersey, compared to the OECD, where they are not included.
[3] Number of dwellings by housing characteristics in England and Wales, Office for National Statistics.
[4] The subsequent Action on Vacant Properties report suggested that of the 4,027 properties reported vacant in the 2021 Census, 907 could be considered as vacant and of most concern, excluding properties vacant due to the property being built or renovated, between tenants, for sale, or where the resident was deceased or in a care home.

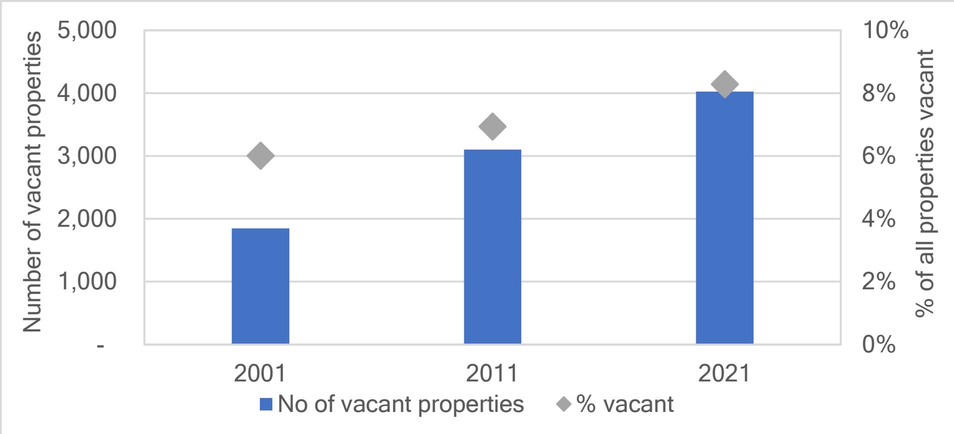
largest proportion was due to the property being built or renovated.[5] Other reasons for vacancy included second or holiday homes, property between tenants, residents deceased and residents in a care home.

Figure 1.4

Jersey vacant properties, 2001 - 2021

Number and percentage of properties vacant by Census year.

Source: Statistics Jersey



The Panel notes that the Government, through the launch of the Empty Homes Service in January 2023, is working to identify long-term empty properties and bring them back into use.

1.3 Household size

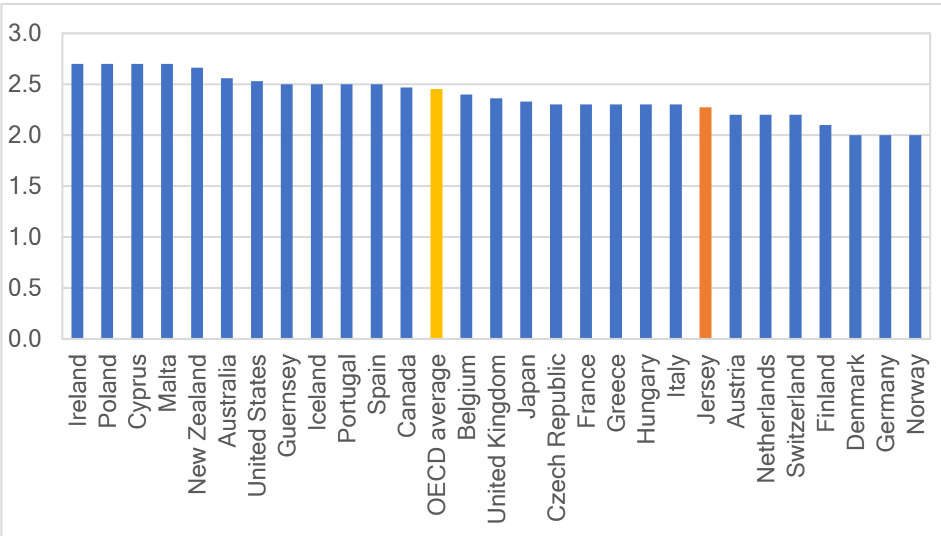
Household size is influenced by changes in the age structure of a population, and societal trends such as changes in cohabitation, marriage and divorce, and birth rates. **Figure 1.5** shows that the average household size in Jersey is below the OECD average, at 2.27 people per household in 2021.

Figure 1.5

Household size: Jersey, Guernsey, and selected OECD countries

Average size of households. Jersey, Guernsey and UK data from 2021, OECD data from 2015 or nearest available year.

Sources: Statistics Jersey, States of Guernsey, OECD, ONS.



[5] This includes properties that have fully enclosed walls and a roof but may not yet be ready for occupation (i.e., some building work is ongoing). See Vacant dwellings reasons, Statistics Jersey.

Low household size reflects the relatively high income per capita and average age in Jersey, shown in comparison to other OECD countries in **Figure 1.6** and **Figure 1.7**.

Figure 1.6

Household size and income per capita, Jersey and OECD countries.

Annual average income per capita in purchasing power parity terms and average household size.

Sources: Statistics Jersey, OECD

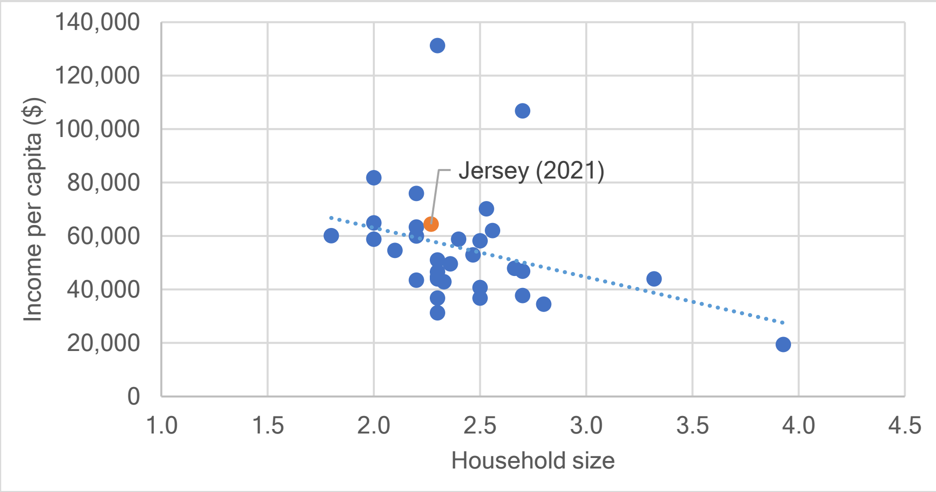
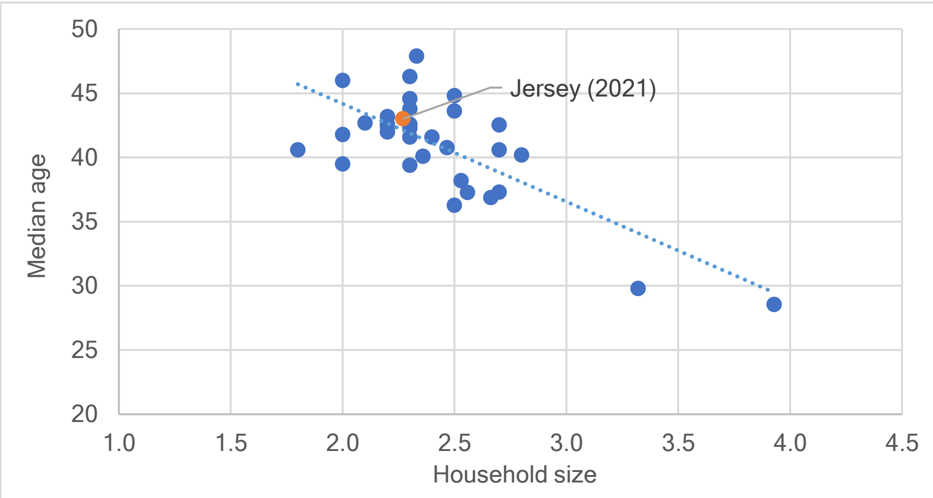


Figure 1.7

Household size and average age, Jersey and OECD countries

Median age and average household size.

Sources: Statistics Jersey, OECD



1.4 Housing market structure

The structure of Jersey's housing market is influenced by the Control of Housing and Work Law, which was introduced in 2012 and applies restrictions on the type of housing that someone can access depending on their residential status.

Broadly, if someone has lived in Jersey for 10 years, is an essential employee, or a partner of someone in those categories, they can purchase or rent any property.[6] If someone does not fall into any of those categories, they are restricted to renting registered (also known as non-qualified) property.[7]

Figure 1.8 shows how the distribution of Jersey's housing stock has changed over time by tenure. Compared to 2001, there has been a shift in distribution of housing by tenure away from registered accommodation. This partly reflects the restriction on constructing new units of registered accommodation in the 2012 Control of Housing and Work Law as well as registered accommodation being converted for either the qualified private rental or owner occupier sector.

Figure 1.8

Housing by tenure, percentage of households

Percentage of private households by tenure type. Note that registered accommodation was previously referred to as non-qualified accommodation.

Source: Statistics Jersey

Jersey's rate of home ownership is 54%, lower than the OECD average of 71%, the UK at 67% and Guernsey at 64% (**Figure 1.9**). This partly reflects the nature of Jersey's population and restrictions on who can buy property. 57% of households who are unrestricted in buying property (those with Entitled or Licensed status) are owner occupiers.[8]

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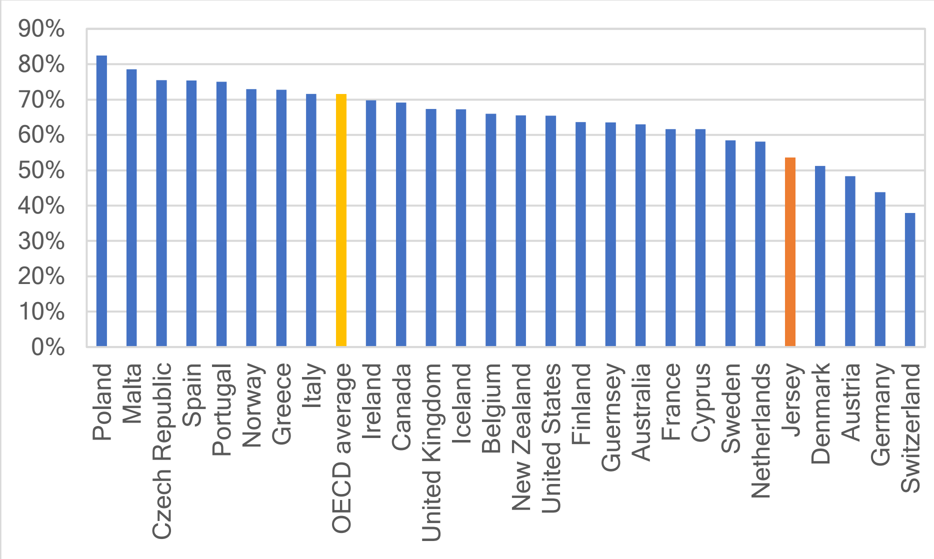
[6] Partners of those who are entitled (lived in Jersey for 10 years) or licensed (essential employee) can purchase or rent a property jointly with their partner.
[7] For full details on work and residential status, see [Residential and employment statuses and what they mean (gov.je)](#).
[8] This is based on the head of the household in the Census. There may be cases where a person with entitled for work status is recorded as the head of the household and is an owner occupier jointly with a person of entitled status - this is not captured in the figure.

Figure 1.9

Home ownership rate, Jersey and selected OECD countries.

Percentage of households that are owner occupiers.

Sources: Statistics Jersey, OECD



1.5 Overcrowding and under occupation

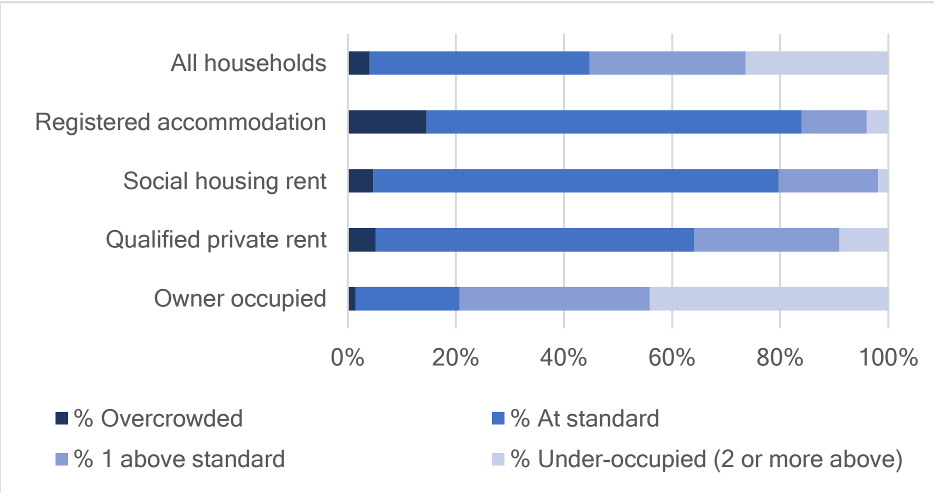
The prevalence of overcrowding and under occupation across the housing market is shown in **Figure 1.10**. This is based on the Bedroom Standard[9], where households are living in overcrowded accommodation if they have less bedrooms than required by the standard or are under-occupying accommodation if they have at least two bedrooms more than required by the standard. Overcrowding occurs most in the non-qualified rental sector, where 15% of households are classed as overcrowded, compared to 4% of all households.

Figure 1.10

Overcrowding and under occupation, by tenure type

According to the Bedroom Standard measure of occupation (see footnote 9).

Source: Statistics Jersey



[9] The 'Bedroom Standard' (UK Housing Overcrowding Bill, 2003) defines the number of bedrooms that would be required by the household, where a separate bedroom is allowed for each married or cohabiting couple, any adults aged 21 or over, pairs of adolescents aged 10-20 of the same sex and pairs of children under 10 years. Unpaired persons of 10-20 years are notionally paired with a child under 10 of the same sex.

Under occupation is most prevalent in the owner occupier sector, where 44% of households are under occupied, compared to 26% of all households.

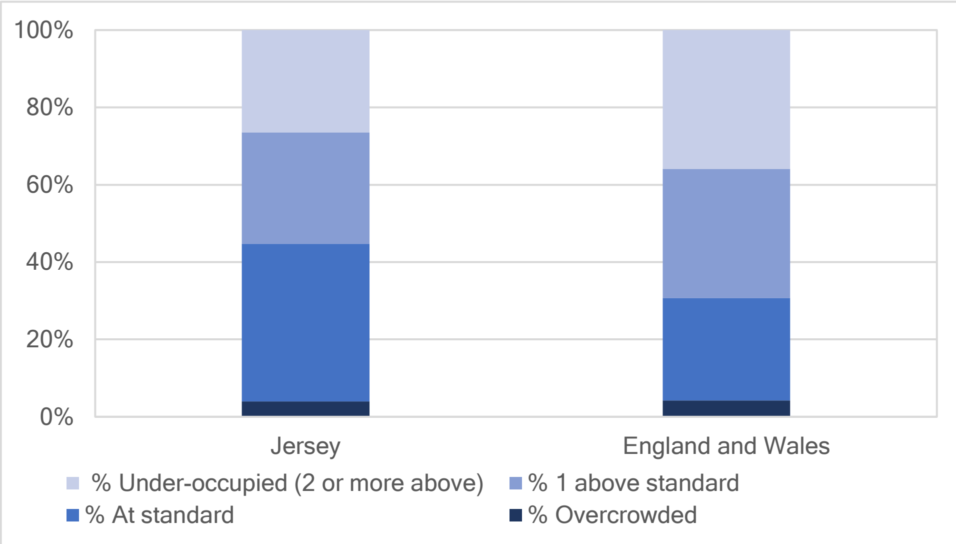
In comparison to England and Wales, fewer households in Jersey are classed as under-occupying their property, at 26% compared to 36% in England and Wales (**Figure 1.11**). Overcrowding rates are similar at 4% of all households in both Jersey and England and Wales.

Figure 1.11

Overcrowding and under occupation, Jersey and England & Wales

According to the Bedroom Standard measure of occupation (see footnote 9).

Sources: Statistics Jersey, ONS.



1.6 Satisfaction with housing

In the 2022 Jersey Opinions and Lifestyle Survey (JOLS), respondents were asked 'overall, how satisfied are you with your current housing', reflecting how satisfied respondents felt with housing quality, housing cost, or a combination of both. Overall, over 90% of respondents were either very or fairly satisfied with their current housing. 58% of respondents were very satisfied with their current housing, a fall from 64% in 2018 but similar to 2015, where the proportion was 56%.[10]

Figure 1.12 breaks this down by tenure. Whilst most respondents in each tenure type were satisfied with their current housing, those renting recorded greater dissatisfaction – ranging from 12% in the qualified rental sector to 28% in the social rental sector.

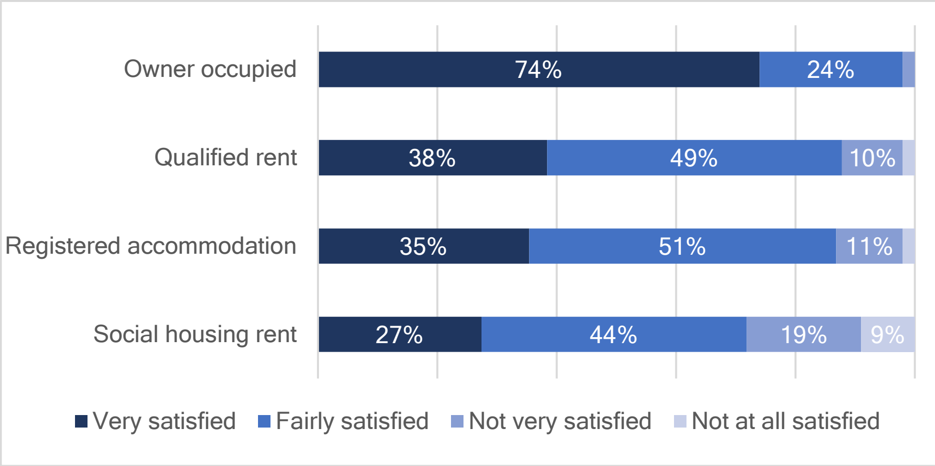
[10] Jersey Opinions and Lifestyle Survey.

Figure 1.12

Satisfaction with current housing by tenure type.

Responses to question 'overall, how satisfied are you with your current housing' in Jersey Opinions and Lifestyle Survey.

Sources: Statistics Jersey



2. Areas of the market

2.1 Mortgage market

Mortgage lending is offered by around 7 banks and building societies in Jersey, in addition to non-banking private lenders. There are fewer mortgage providers in Jersey compared to the UK, which may contribute to the lower rate of home ownership in Jersey. Mortgage comparison sites are not available and prospective borrowers often have to contact individual lenders directly and attend in person appointments to obtain a mortgage. This may make households less likely to shop around for the most competitive initial mortgage, or to switch mortgages.

Both the range of mortgage products available and interest rates offered in Jersey differ to the UK. Whilst the picture is mixed across variable rates, current fixed mortgage interest rates for comparable products are higher in Jersey than the UK. **Table 2.1** compares the average interest rate for a 2-year, fixed rate mortgage at a 90% loan-to-value (LTV) ratio across a sample of lenders that operate in both Jersey and the UK. The difference between average rates in Jersey and the UK has fluctuated in recent months, potentially reflecting differing responses to changes in bank rate expectations. However, rates currently remain higher in Jersey than the UK, by 0.7 percentage points on average.

Table 2.1

Mortgage Interest Rates, Jersey and UK.

Interest rate on 90% LTV 25-year mortgage, 2-year fixed rate. Comparator products in Jersey and the UK - average for a sample of lenders (Barclays, HSBC, Lloyds, NatWest, Santander)

Sources: Barclays Bank, HSBC, Lloyds, Santander, NatWest (International and UK).

	15-Dec-23	22-Jan-24	29-Feb-24	10-Apr-24
Average interest rate in Jersey	6.8%	6.8%	6.4%	6.3%
Average interest rate in the UK	5.5%	5.2%	5.3%	5.6%
Difference (pp)	**1.3**	**1.6**	**1.1**	**0.7**

This may reflect a range of reasons, such as ringfencing, the relative scale of lending activities increasing costs, the number of lenders in the industry, riskiness of loans at higher loan-to-income ratios or the differing focus of banks activities. The Panel would suggest further work into understanding the drivers of the difference between rates in the UK and Jersey.

Many lenders provide both residential and buy-to-let mortgages, however mortgage providers indicated that most of their loans are for residential mortgages. Mortgages offered in Jersey are often offered at multiples of 6 times annual income, higher than in the UK, where there is a limit on the proportion of mortgages that can be offered above 4.5 times income. This partly reflects the differences in tax rates, so the net of tax income multiple is similar. Minimum deposit requirements currently vary from 5% to 20% across banks, although one mortgage lender provides a 100% mortgage with a guarantor.

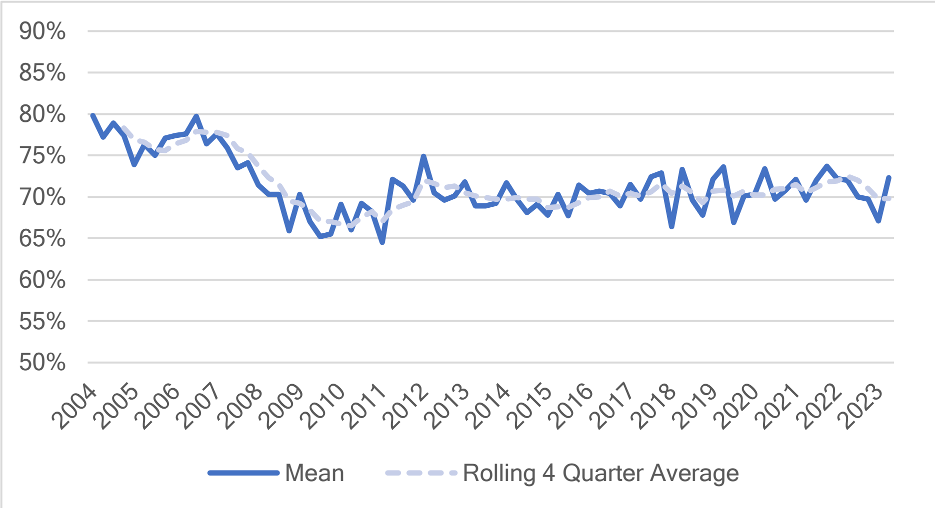
Figure 2.1 shows how the average loan to value ratio on property transactions has changed over time, with the ratio at 75% in 2007 prior to the global financial crisis, before falling to 65% in 2011. It has remained relatively stable at around 70% since 2012, despite increases in house prices since this period.

Figure 2.1

Average loan to value ratio

Mean loan to value ratio for property transactions passed by the Royal Court, quarterly and rolling four quarter average.

Source: Statistics Jersey



2.2 Land use and development

Land use and development policy are of crucial importance in housing markets, determining where, and how much housing may be built in an area. **Figure 2.2** shows land usage by type in 2021. 24% of land was characterised as built environment, which includes buildings, roads, footpaths, swimming pools, gardens and harbour areas. The proportion of land characterised as built environment varies widely across parishes, with 51% of land as built environment in St Helier, compared to 14% in St Ouen. For context, 9% of land was characterised as 'developed use' in England in 2022.[11]

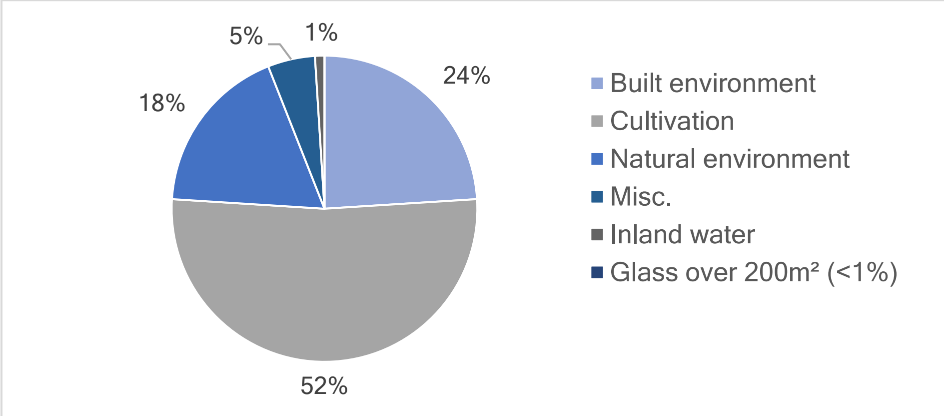
[11] This is not directly comparable to the built environment in Jersey and does not include residential gardens. Accounting for this takes the percentage to 14% in England, ranging from 65% in London to 10% in the North East.

Figure 2.2

Land usage

Land usage by type, 2021.

Source: Statistics Jersey



The population density in Jersey is 869 people per km², ranging from 3,716 people per km² in St Helier to 274 in St Ouen (**Figure 2.3**). The population density is 15% lower than that of Guernsey (998 people per km²), but higher than England at 395 people per km². For context, the population density in Jersey was similar to that of Burnley or Newport local authority areas in England and Wales.[12]

Figure 2.3

Population density

Population density in Jersey by enumeration district, 2021.

Source: Statistics Jersey

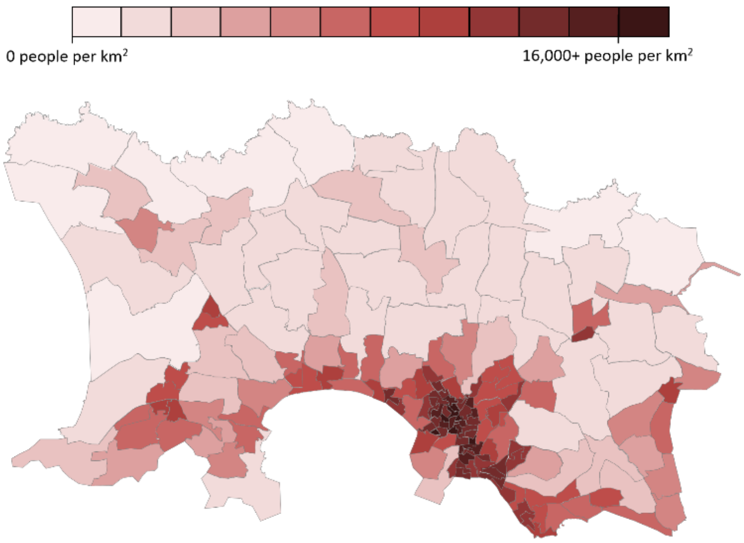


Figure 2.4 shows the settlement hierarchy in Jersey based on the 2021-2025 Bridging Island Plan, where Town[13] is the Island's primary centre for commerce, shopping, housing, and public services, Les Quennevais is a secondary urban centre, providing residential accommodation alongside community, education and sports facilities, and a secondary Island retail centre. Local centres are defined as areas in which most of people's daily needs can be met within a short walk or cycle, whilst the remainder of the Island's built-up area comprises a mixture of small forms of development with little or no facilities and services.

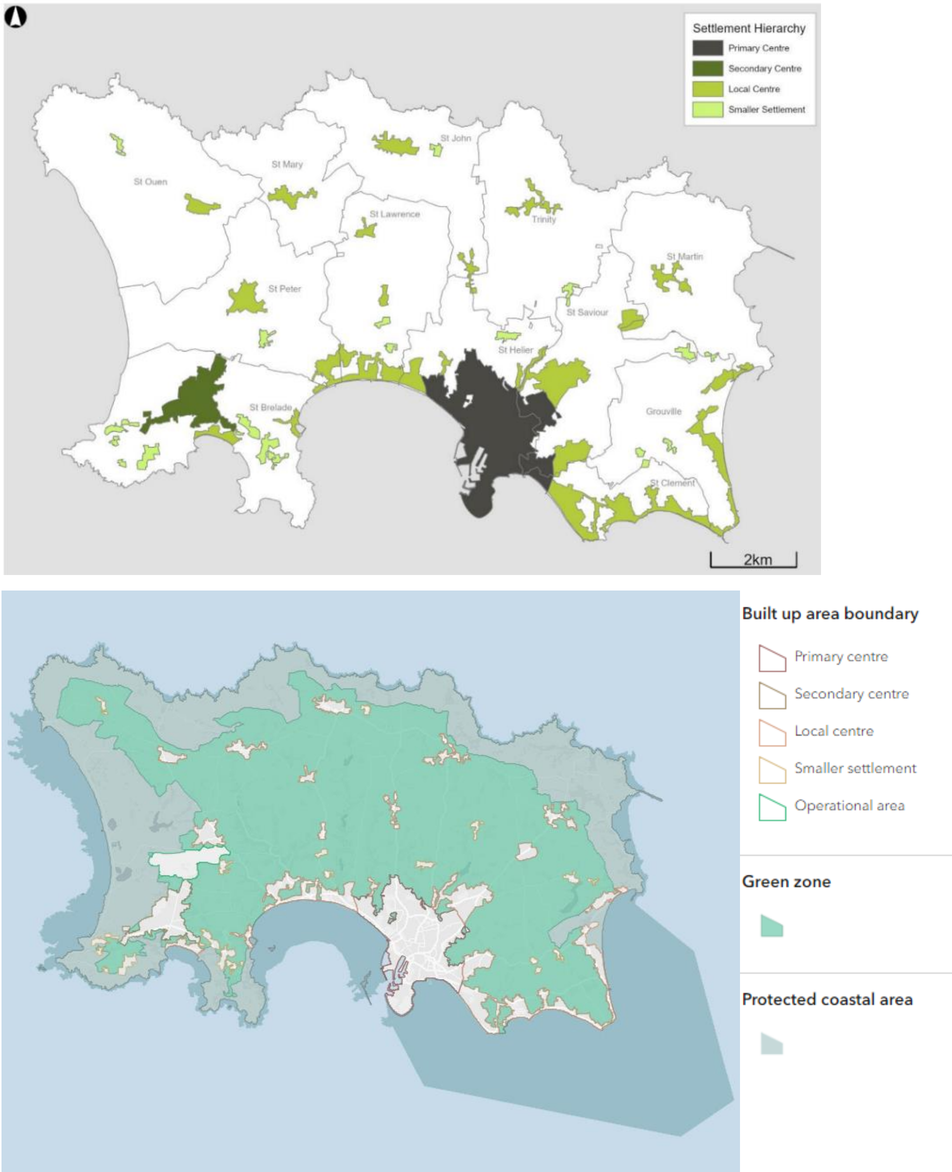
[12] Report on the 2021 Jersey Census, Statistics Jersey and England and Wales Census 2021, Office for National Statistics.
[13] Town as defined in the Island Plan includes much of the parish of St Helier, and parts of St Saviour and St Clement.

The Bridging Island Plan's spatial strategy focuses most development activity on the Island's existing built-up areas, which cover 12% of the Island, to promote the most sustainable pattern of development. The Plan notes that for much of the countryside, coast, and marine environment "it is important that these undeveloped parts of Jersey's natural environment are protected for their intrinsic value; for the health and wellbeing, and recreation of islanders and visitors; and for the Island's economy". The Plan notes that coastal and rural development opportunity will be most limited in the Protected Coastal Area, which covers nearly 30% of the Island's land mass.[14]

Figure 2.4

Settlement Hierarchy and Protected Coastal Area

Source: Bridging Island Plan, 2022-2025.



[14] Bridging Island Plan, Government of Jersey, 2022.

Following the Bridging Island Plan, minimum density standards were introduced in 2023 for the first time, whilst residential space and parking standards were updated.

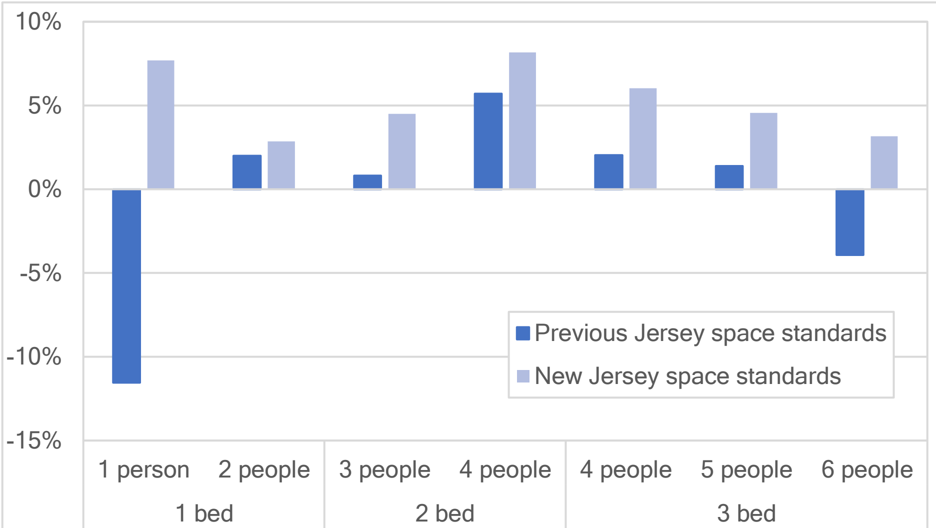
Figure 2.5 shows how the previous and updated minimum residential space standards compare to the UK. The difference between UK and Jersey minimum space standards has increased under the new Jersey standards, with minimum space standards 5% larger than the UK on average. This has implications for construction methods and cost. Stakeholders expressed concern that misalignment with UK space standards limits options for some types of modern methods of construction (such as volumetric methods) where imports come from the UK. Evidence indicates that there are a range of other barriers to modern methods of construction in Jersey.[15]

Figure 2.5

Difference in minimum residential space standards between Jersey and the UK

Average percentage difference in minimum residential space standards between the UK and Jersey's previous / new space standards, where the UK is along 0 line and bars are differences in Jersey standards.

Sources: Government of Jersey



Minimum density standards relate to the settlement hierarchy, whereby residential development of five or more homes in the primary centre (town of St Helier) must be at a density level of 50 dwellings per hectare, compared to 30 dwellings per hectare in the smaller settlements. A maximum density level of 350 dwellings per hectare applies across areas.[16]

Parking requirements generally reflect property size and an area's accessibility, with no minimum provision for developments in St Helier town centre and a maximum provision of one parking space per property, regardless of size. Outside of the town centre minimum levels of provision exist and range from 0.25 to 2 spaces per property, increasing according to remoteness and property size.[17]

[15] Modern Methods of Construction Report: Government of Jersey. March 2022.
[16] Density standards, Government of Jersey.
[17] Parking (planning policy note), Government of Jersey.

Development in Jersey follows a mix of models, with some companies acting as landowners, developers, and constructors, whilst others act as pure developers and contract out construction. There are a limited number of developers in Jersey, though they are split between private and public developers. The construction industry is becoming more concentrated, given the exit of two construction firms from the market in 2023. Stakeholders from the development and construction industry noted a concern over a slowing of future projects in the pipeline. For developers, this has in some cases resulted in moving from a model of developer and construction to undertaking construction only projects as a contractor.

3. History of prices

3.1 House prices

Since 2002, the House Price Index (HPI) has risen by 141%, with strong growth periods in 2006-2008 and 2017-2022. Turnover shows more year-to-year volatility, falling by 43% in 2023 compared to 2022, to the lowest level of housing transactions since at least 2002. (**Figures 3.1 and 3.2**). House prices have risen in 15 out of 21 years. Many years in which the market is seen as 'weak' (2008/9 and 2020 for example) are periods in which prices rose somewhat, but turnover fell.

Figure 3.1

House Price Index and Turnover, percentage changes

Annual percentage change in House Price Index (non-seasonally adjusted) and HPI transactions.

Source: Statistics Jersey

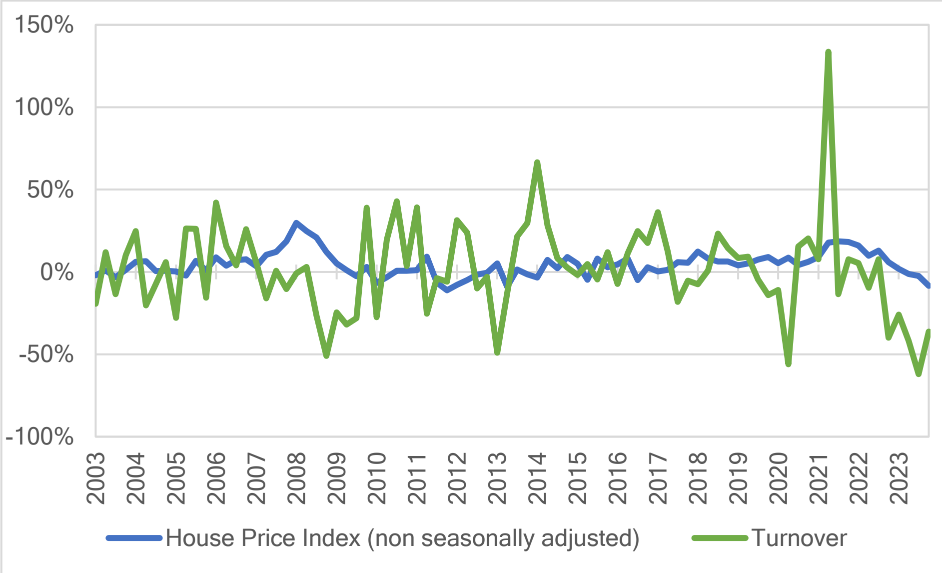
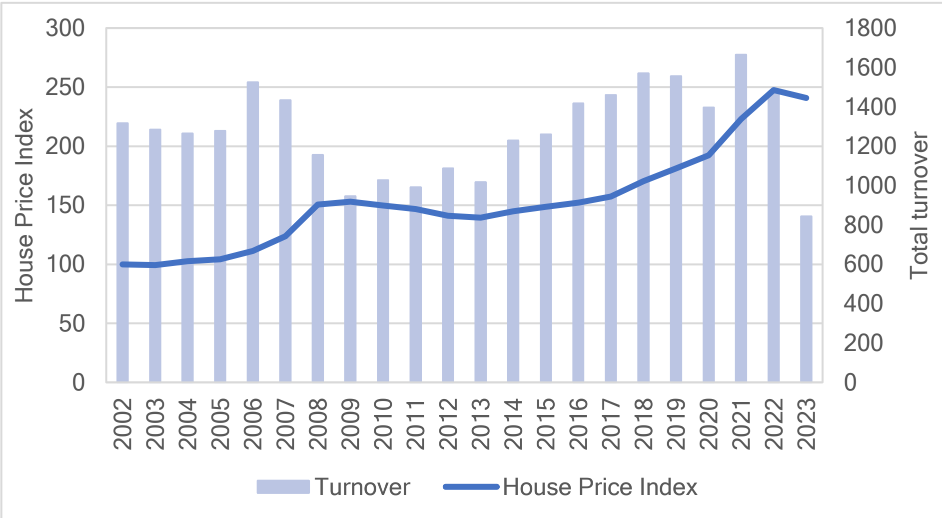


Figure 3.2

House Price Index and Turnover, levels.

Annual House Price Index (non-seasonally adjusted) and HPI transactions.

Source: Statistics Jersey



Prices have risen fastest for 4-bed properties, rising by 188% from 2002-2023, compared to the price of 1-bed flats, which has risen by 123% over the same period. This may reflect the relative increases in supply, which have been higher for flats compared to houses.

Figure 3.3 shows how the HPI and rental price index (which includes advertised rental prices) have changed alongside inflation (Retail Price Index, RPI) and average earnings. Average earnings grew faster than sales or rental prices in the period between 2002 and 2006, and faster than sales prices in the immediate period following the financial crisis. However, in the 8 years to 2022, housing costs rose faster than earnings, putting pressure on housing affordability for households. During this period from 2015 to 2022, house prices rose by 66% and rents rose by 43%, whilst average earnings rose by 23%. In 2023, house and rental prices fell whilst incomes rose - however this is in the context of high interest rates.

Figure 3.3

House Price Index, Rental Index, RPI and average earnings.

House Price Index (non-seasonally adjusted), Private Rental Market Index (advertised rental prices), Retail Price Index and Average Earnings Index.

Source: Statistics Jersey

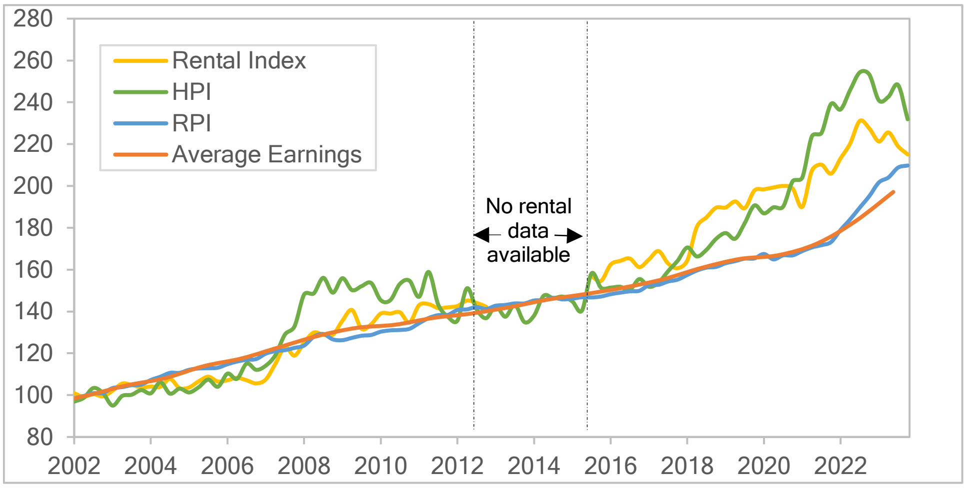


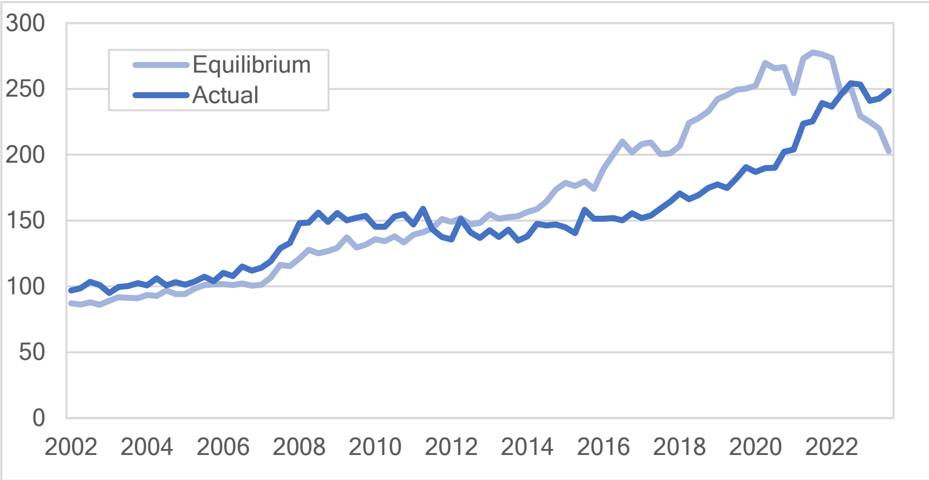
Figure 3.4 estimates expected house prices in Jersey based on a model where if expected rental price growth equals inflation, changes in real yields (influenced by interest rates) affect house prices. Over the period, the model performs relatively well in estimating the trend of house prices, highlighting the role of low interest rates in contributing to rising prices. Where actual house prices deviate from the model, this is partly due to the role of increasing supply over the period and other factors such as the move to larger deposits since the financial crisis.

Figure 3.4

House Price Index - modelled compared to actual.

Modelled house price index based on changes in yields (influenced by interest rates), expected rental price growth and inflation.

Sources: Panel calculations



3.2 Affordability

Housing affordability broadly refers to the cost of housing services (whether for owners or renters) relative to a household's income. This differs from 'affordable housing', which relates to housing provided at a subsidised rate. A common measure of affordability classes housing as unaffordable if housing expenditure (on rents or mortgage payments) exceeds 30% of gross income, or 40% of net income.[18]

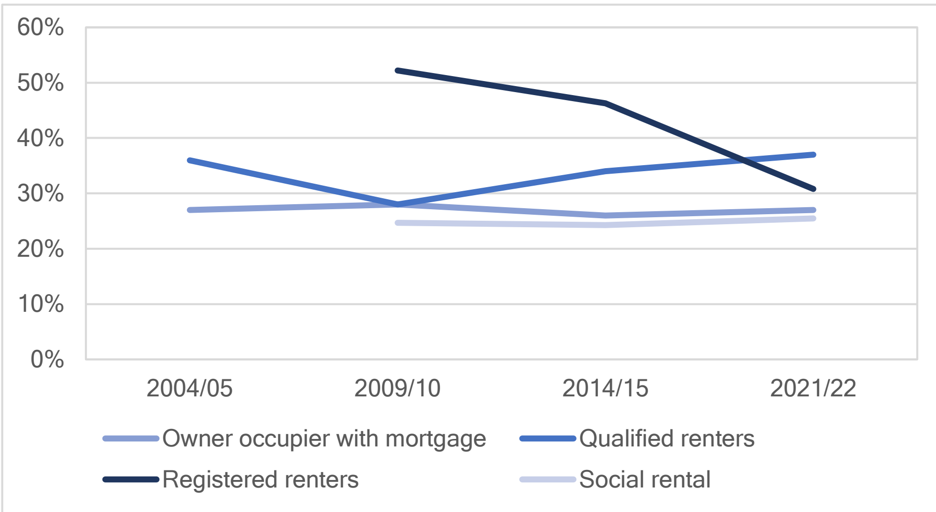
Figure 3.5 shows the proportion of net median income spent on housing by tenure type, using data from household expenditure and income surveys. Average housing expenditure was below 40% of net income for all tenure types, but highest for qualified renters at 37% of net median income, indicating affordability is most challenged in the private rental sector.

Figure 3.5

Proportion of net median income spent on mortgage repayments or rent

Spend on housing (mortgage repayments or rent) by tenure type as proportion of net median income by tenure type.

Source: Statistics Jersey



[18] OECD – Overview of Affordable Housing Indicators. This measure of affordability does not account for high income households choosing to spend over the threshold on housing.

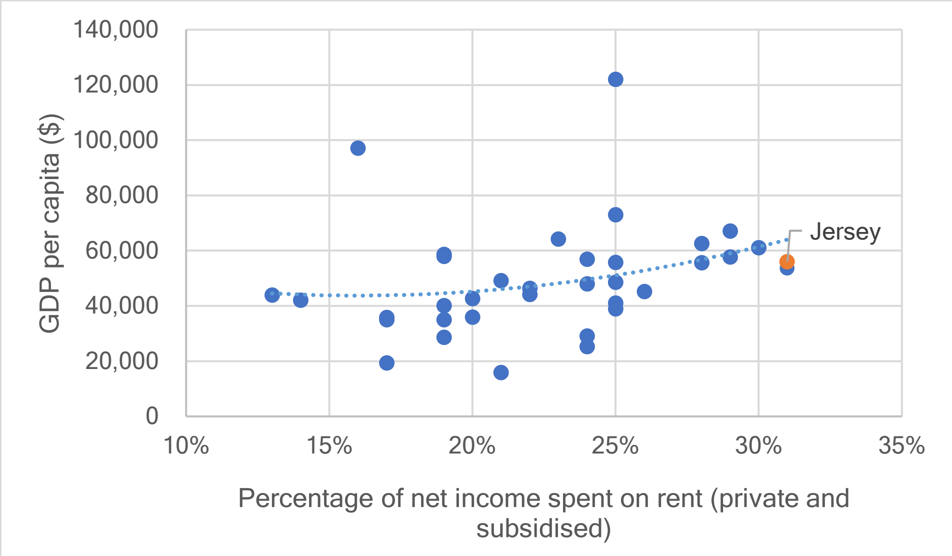
High housing expenditure as a proportion of income is correlated with high income per capita, as seen in **Figure 3.6**, which plots median rent as a portion of income (private and subsidised) against income per capita for OECD countries. Jersey ranks joint 1st in the OECD according to the proportion of net income spent on rent (private and subsidised), partly reflecting its high income per capita.

Figure 3.6

Rent (private and subsidised) as percentage of net income and income per capita, Jersey and OECD countries.

GDP per capita in PPP terms, percentage of net income spent on rent for private and subsidised rental households. OECD data 2020 or nearest available year.

Sources: OECD, Statistics Jersey



Another common measure of housing affordability is the house price to income ratio. **Figure 3.7** shows how Jersey compares to areas of the UK on house prices relative to income, using 2022 data as that is the most recent available data for the UK. In 2022, a median priced house was equal to 14.8 years of median net household income in Jersey, slightly higher than London at 13.9 years of income and over double that of Wales at 6.4 years of income.[19] The house price to income ratio fell to 13.4 in Jersey in 2023, though this is in the context of recent interest rate rises.

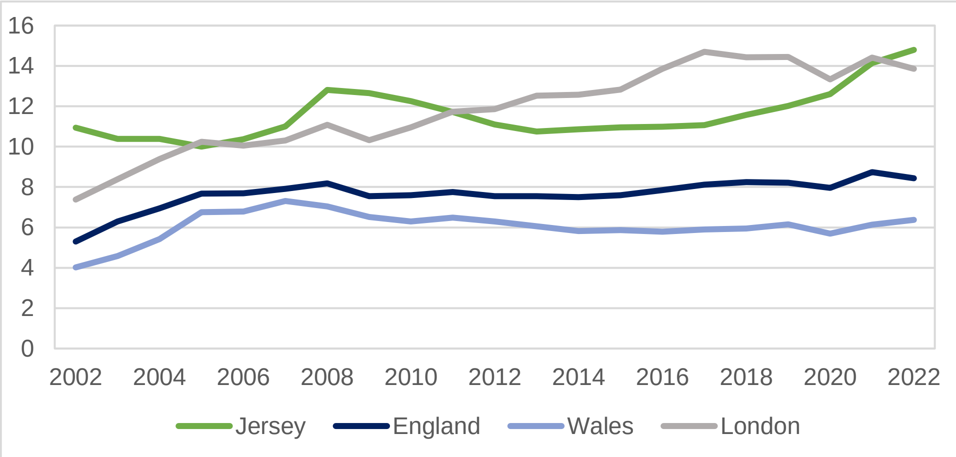
[19] House price to income ratio is calculated by comparing the median net household income (income and benefits minus taxes, social security and pension contributions) in an area to the median house price in the area. Equivalised median income is used for consistency with the ONS data. This has been adjusted to take account of household composition, such that households with many members are likely to need a higher income to achieve the same standard of living as households with fewer numbers.

Figure 3.7

House price to income ratio

Median house price ratio to median income (by country/region).

Sources: Statistics Jersey, ONS.



When considering affordability for home ownership specifically, two factors matter: purchase affordability, which is whether a household can borrow sufficiently to buy a house, and repayment affordability, which is whether a household has sufficient income to service a mortgage.

One of the largest barriers for potential first-time buyers is the deposit required. With a median house price of around £670,000 in 2022, a standard 10% deposit is equivalent to £67,000, equal to over a year's net income (1.5) for a median income household. For comparison, in England a median income household would need 0.8 times their annual net income for a 10% deposit on a median price house, or 0.6 times their annual net income in Wales.[20]

Figure 3.8 shows how purchase affordability differs in Jersey between current owner occupiers and (qualified) private rental households, the group most likely to be first-time buyers, by looking at the difference between median income (by tenure) and the income required to obtain a 90% loan-to-value mortgage at 4.5 times income. Affordability is significantly worse for rental households, where a household on median income cannot afford any property type.

[20] For consistency with ONS data, equivalised household income is used. See footnote 19 for information on equivalised household income.

Figure 3.8

Difference between current income (by tenure) and income required for different property types

Difference between median qualified private rental/owner occupier gross household income and income required to obtain a 90% LTV mortgage on a median price property (assuming a household can borrow 4.5 times income).

Sources: Statistics Jersey, Panel calculations.

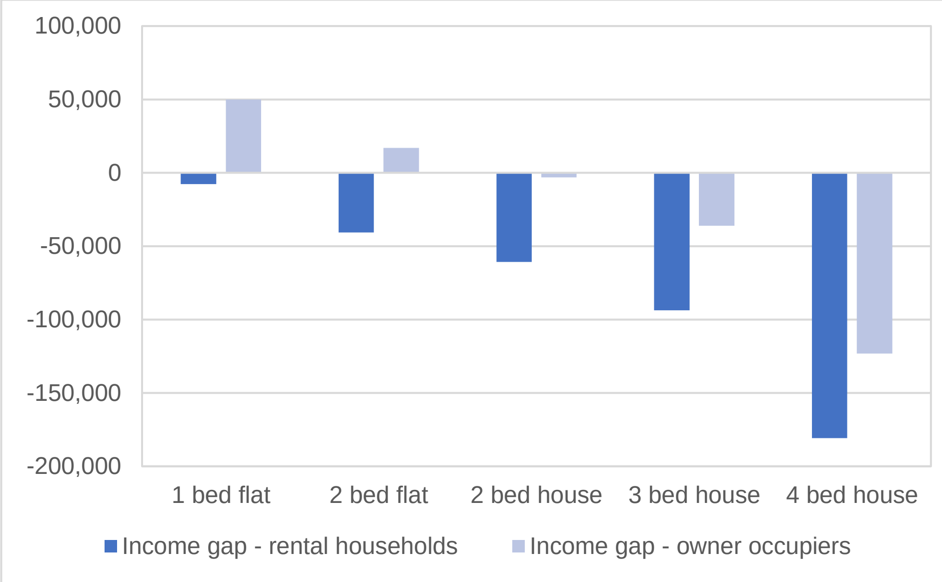


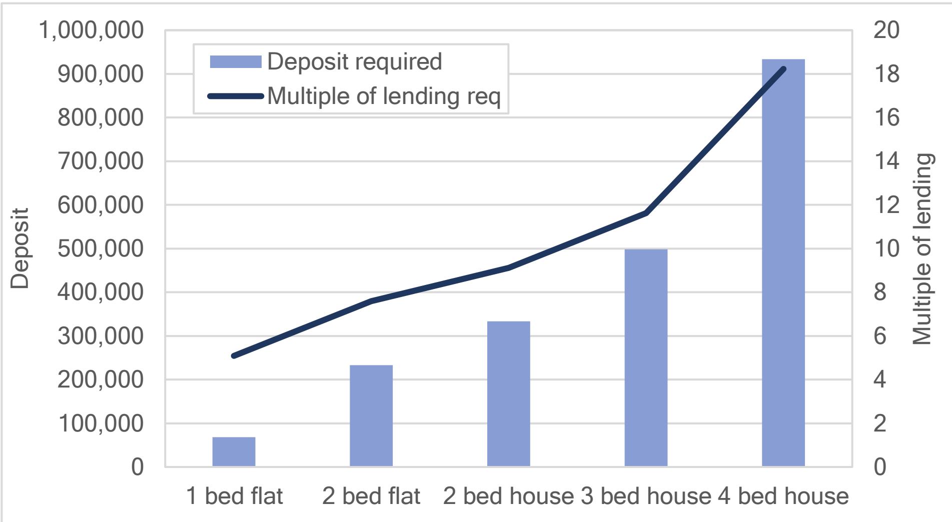
Figure 3.9 shows what would be required for a median income rental household to purchase a median priced property across property types, by changing one of the previous assumptions, a) 10% deposit, or b) multiple of income available for lending. For a median income rental household to buy a 2-bed flat with a 10% deposit, they would require a loan equal to 8 times their income. Conversely, if they were only to borrow 4.5 times their income, they would require a deposit of around £233,000, equal to 47% of the house price. These conditions may push rental households to seek outside familial help with larger deposits, or to private lenders where they are able to borrow higher multiples of their income.

Figure 3.9

Deposit or multiple of lending required for median income renters to purchase each property type

Median income renters - deposit required to purchase each property type assuming mortgage of 4.5 times gross income or lending multiple required with a 10% deposit.

Sources: Statistics Jersey, Panel calculations.



For repayment affordability, the threshold of mortgage payments not exceeding 40% of net income is a useful indicator, as previously with total housing expenditure. **Figure 3.10** demonstrates a scenario on repayment affordability for a median price house, showing monthly mortgage payments as a percentage of net income for median and upper quartile income households. This assumes 90% loan-to-value ratio mortgage with a mortgage term of 25 years and a 2-year fixed interest rate.

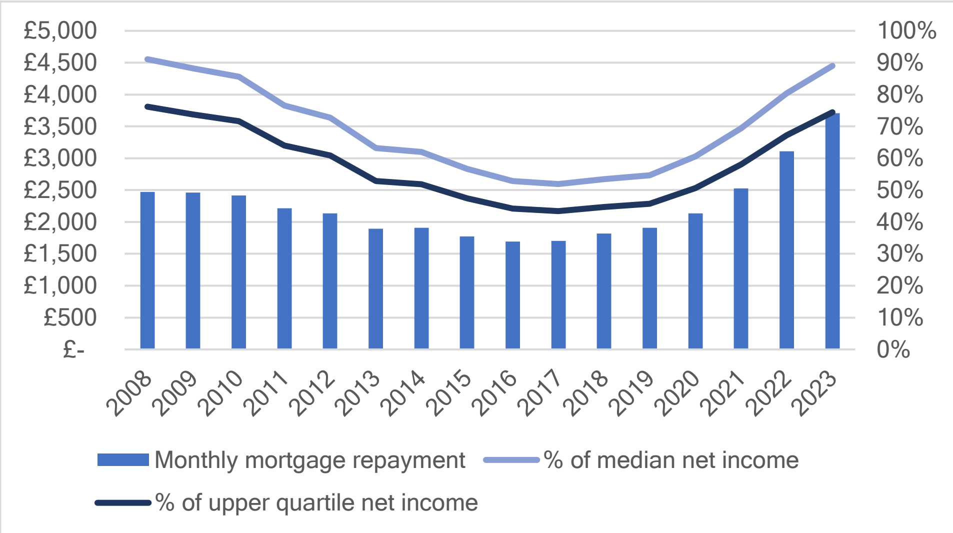
For households on both median and upper quartile income, the monthly mortgage payment on this type of mortgage has exceeded the 40% of net income threshold since 2008, rising to almost 90% of monthly net income in 2023 for median income households. This is higher than the reported percentage of income spent on housing for homeowners, indicating home ownership is only affordable for high income households (gross median income for owner occupiers with mortgages is estimated to be around 90% higher than gross median income for all households). Alternatively, households must seek longer mortgage terms, with many mortgage lenders in Jersey offering terms of 35 or 40 years, or raise higher deposits to improve repayment affordability.

Figure 3.10

Mortgage payments on median house price as percentage of net income - scenario

Based on Bank of England average UK lender interest rates for a 2-year fixed rate mortgage, 90% LTV and 25-year term.

Sources: Statistics Jersey, Bank of England, Panel calculations



4 Factors driving house prices

4.1 Supply

Supply is a key determinant of house prices over the long run and depends on planning systems, housing market activity, and land and construction costs. Both total supply and the distribution of supply by residential status matter in Jersey. In 2021, 11.5% of Jersey's population aged over 16 had entitled for work or registered status so could only access housing through the (registered) private rental market, highlighting the importance of the rental market in Jersey.[21] See **Box 1** on the distribution of supply.

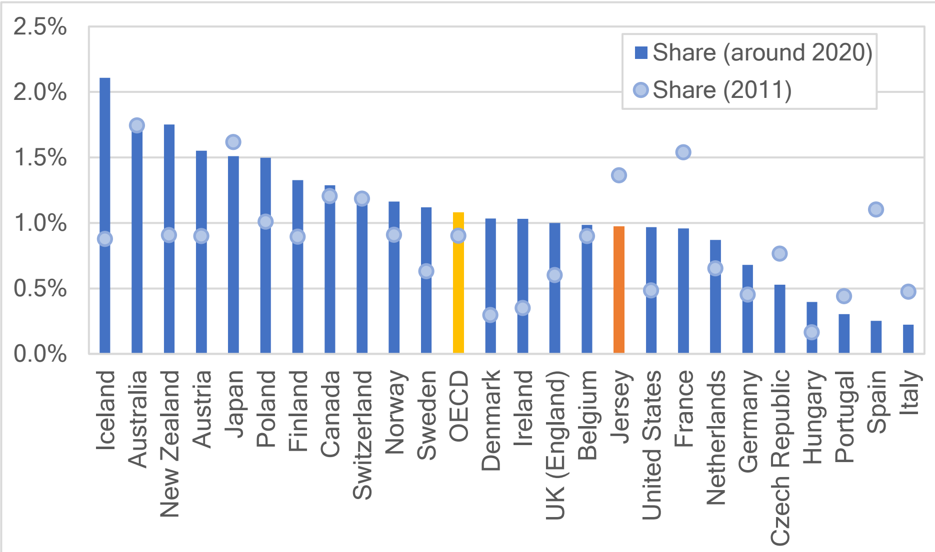
New housing supply as a share of existing stock fell between 2011 and 2021. Compared to a range of OECD countries, Jersey was slightly lower than the OECD average on housing construction, at 1.0% compared to the OECD average of 1.1% (**Figure 4.1**). Alongside the rate of new supply falling, the vacancy rate has increased in Jersey (see **Section 1.2**).

Figure 4.1

Housing construction relative to existing stock, Jersey and selected OECD countries

Share of dwellings completed in the year as a percentage of total existing stock. Data for Jersey 2011 and 2021. OECD data for 2011 and 2020 or nearest available year.

Sources: OECD, Panel calculations



An 'affordability model' developed by the University of Reading and used by the National Housing and Planning Advice Unit (NHPAU) in the UK estimated the impact of a range of determinants on house prices.[22] A 1% increase in housing stock was estimated to result in a 2% fall in house prices. Whilst the relationship may be different in Jersey, it provides an indicative estimate of how supply can influence house prices. Comparing the number of private dwellings (which does not equate exactly to the number of properties) in the 2011 and 2021 Census indicates dwellings increased by 9%, meaning that holding all else equal, house prices would have fallen by 18%.

[21] Those with entitled for work or registered status are largely restricted to renting registered accommodation, except in circumstances where a person with entitled for work status can buy a property jointly with an entitled or licensed partner. For full information on residential statuses, see Residential and employment statuses and what they mean (gov.je).
[22] Affordability matters, 2007. National Housing and Planning Advice Unit.

Planning system

New housing supply in Jersey is linked to the Island Plan, which is the primary consideration in planning decisions. The Island Plan estimates future housing needs under different migration scenarios and given current trends in life expectancy and household size. It also considers potential shortfalls in housing delivery in previous plan periods. This forms the basis of a housing development target. Sources of supply to meet that target are homes already under construction, sites with outstanding planning permission, capacity of the town, states-owned sites, 'windfall' outside of town, and extensions to the built-up area (rezoning).

The Island Plan process calls for sites to be put forward for development or protection for development. Sites are then assessed and allocated for rezoning in the Plan.[23] Planning permission is generally not granted for developments which do not accord with the Island Plan.

The planning system was the subject of the McKinnon review, published in April 2023, which highlighted a range of issues with the process, including on data collection.[24] Stakeholders explained to the Panel that planning application data must be manually collated as applications are often re-submitted for the same development and to understand the number of new homes each application must be opened to count the number of homes demolished versus built.

One of the key recommendations of the McKinnon review was to improve the process of validation and registration, whereby instead of applications moving into the system in days it could take weeks or months. **Figure 4.2** shows this has improved recently, with 142 applications awaiting registration at the end of 2023 compared to a high of 269 applications in July 2023.

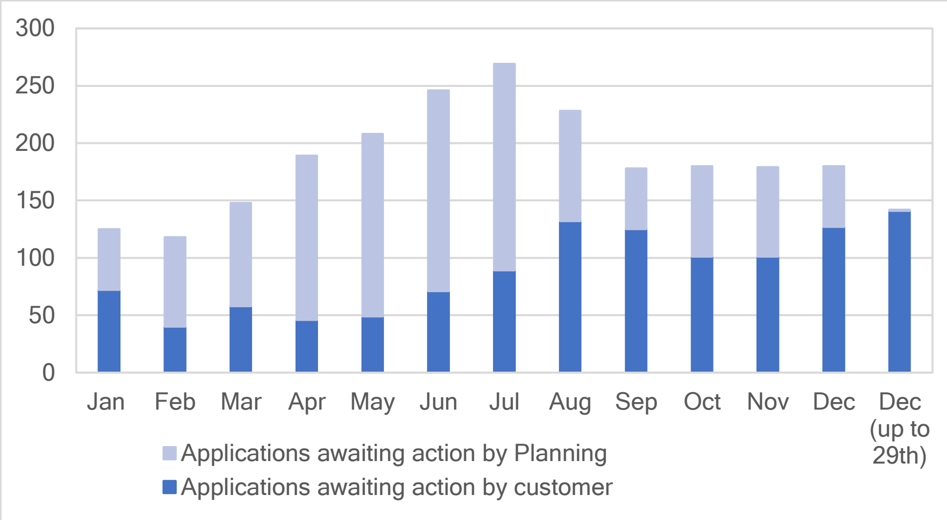
[23] Sites are only rezoned for the provision of affordable homes in the current Island Plan.
[24] Mackinnon Review

Figure 4.2

Planning applications awaiting registration, monthly

Monthly applications awaiting registration during 2023.

Source: Infrastructure and Environment



Once applications are submitted, there is a target to determine 85% of major applications (which include a single house or above, changes of use and other applications of wider significance) within 13 weeks. This has not been met at any time from 2017 to 2023, with 62% of major applications determined within 13 weeks in 2023.[25]

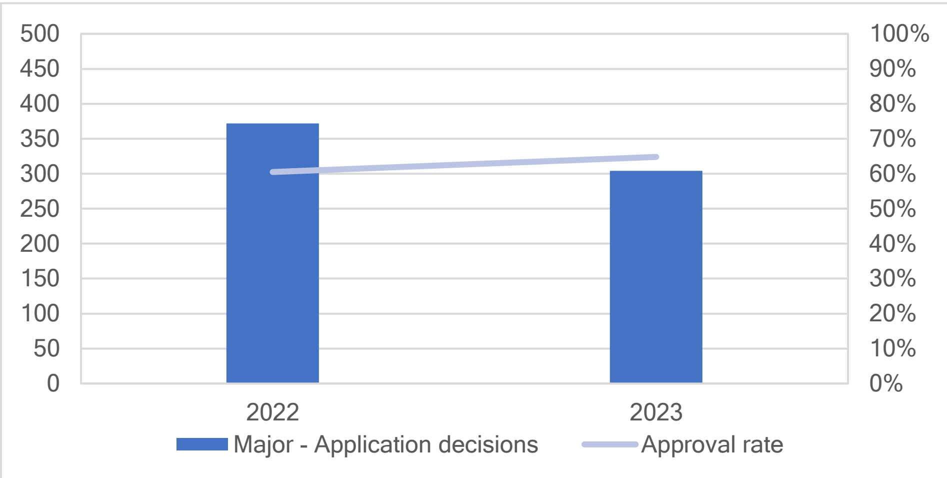
Figure 4.3 shows the number and outcome of major planning application decisions from 2022 to 2023. In 2023, 63% of major planning applications received approval. Overall, 75% of applications were approved, compared to target of 85%. Approved planning applications in 2023 resulted in a net increase of 615 residential units, increasing from 289 in 2022. The increase was partly driven by the approval of the Les Sablons development (238 units).

Figure 4.3

Major planning application decisions

Number of application decisions and approval rate by year.

Source: Infrastructure and Environment



Planning decisions can be referred to the Planning Committee, who are elected by the States Assembly and take decisions on larger applications and

[25] [Review of the Planning Services Improvement Plan 4th Quarter Update.pdf (gov.je)]

proposals with six or more objections. For the 97 applications referred to the Committee in 2023, 21% were decided against the planning officer's recommendation. A further 60 decisions were referred to the Committee following a review, of which 20% subsequently had the decision over-turned.

Planning decisions can be appealed by first and third parties in Jersey, provided that the third party has made a written statement about the application and reside or have an interest in land within 50 metres of the application. This differs from the UK and Guernsey, where third parties are not allowed to appeal a planning decision. In 2023, 38 decisions were challenged at appeal, of which 26% were upheld or part upheld, whilst the remainder were dismissed. 63% of all appeals were by a third party, of which 25% were upheld or partly upheld.

Some stakeholders expressed concern to the Panel on the future pipeline of housing supply and the uncertainty associated with planning decision outcomes. Factors such as a third-party appeal process and delays in reaching planning decisions can increase uncertainty over outcomes of planning decisions. Research indicates that when future conditions such as the probability of obtaining planning permission are uncertain, this can delay construction, particularly during periods of price volatility where margins are more uncertain.[26]

Completions

Table 4.1 shows how the average annual net completions has changed over time in Jersey, increasing in the first 10 years of the 21st century to 531 per year before falling in the most recent 10-year period from 2012-2021.

Table 4.1

Average annual net housing completions

Source: Government of Jersey

Time period	Average annual net completions
1986-2001	366
2002-2011	531
2012-2021	376

Figure 4.4 shows how net housing completions have changed since 2002, with data available split by affordable completions (i.e., social housing) and open market completions up to 2020.

[26] Meen and Whitehead (2020). Understanding affordability: the economics of housing markets.

Figure 4.4

Housing Completions 2002-2023 Q1

Net housing completions by year, split by open market and affordable completions up to 2020. Note for 2023 data is only available for Q1.

The Revised 2011 Island Plan estimated an additional 4,000 homes would be required by 2021, including 1,000 affordable homes. From 2011 to 2020, 3,897 homes were delivered, 97% of the estimated requirement. 729 were classed as affordable housing, delivering 73% of the estimated requirement.

The current Bridging Island Plan set a target to deliver 4,000 homes between 2021-2025, equal to 800 homes per year. This was based on estimated demand from population growth and declining household size. This supply target is a large increase on the historic averages of net completions (as seen in **Table 4.1**). So far, this target has not been met.

However, actual population growth over the 2011-20 period was lower than the population projections the Island Plan was based on. This indicates the challenges associated with aiming to match the supply of new housing to changes in population, particularly if new supply is restricted such that those who do not have entitled or licensed status cannot access it (e.g. short-term migrants).

Future completions are partly driven by the current state of the housing market. In housing market contractions, transactions are often the first indicator to fall, followed by construction activity and lastly price.[27] Housing transactions fell by 43% in 2023 compared to 2022. In the latest Business Tendency Survey, current and future business activity for construction was neutral[28], possibly influenced by repair work following Storm Ciaran.

The Bridging Island Plan notes that high land costs coupled with relatively high build costs are key drivers of supply and cost of new housing in Jersey. In periods of high and rising house prices, land values rise. Construction costs

[27] Meen and Whitehead (2020). Understanding affordability: the economics of housing markets.
[28] Jersey Business Tendency Survey, December 2023.

are likely to continue rising, with the current and future input cost indicators both negative for the construction sector in the latest Business Tendency Survey.

Box 1 - Distribution of housing supply

Jersey's housing market is affected by the distribution across residential status, whereby those with entitled for work or registered status are limited to registered rental accommodation. According to the 2021 census, 11.5% of Jersey's population aged over 16 had entitled for work or registered status. Under the Control of Housing and Work Law (2012), new units of registered accommodation have been restricted.

Box 1 - Figure 1 - Occupied dwellings per thousand residents aged 16+, by tenure

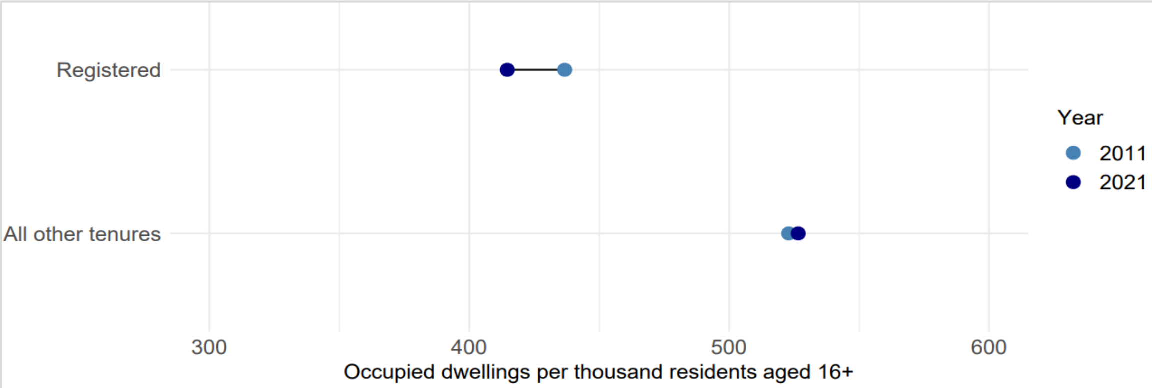
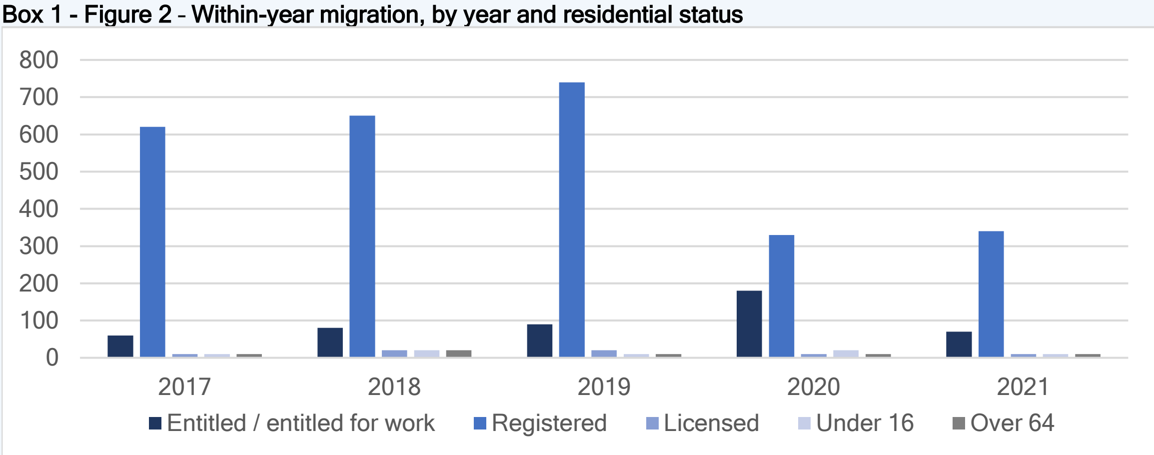


Figure 1 shows how the availability of housing stock differs by residential status, looking at occupied dwellings per thousand residents in registered accommodation compared to all other tenures. In both Census periods, the relative housing stock per population is lower for the registered population. The number of dwellings per thousand residents decreased for the registered population between 2011 and 2021, linked to the 2012 Control of Housing and Work Law.

Many businesses in Jersey rely on seasonal workers that have registered status. **Figure 2** provides detail on within-year migration (migrants who come and leave in the same year) by residential status. Those with registered status make up the largest share of within-year migration, accounting for 80% of total within-year migration from 2017 to 2022 at an average of 540 people per year. Combining this with the relative decline in the supply of registered accommodation, this indicates pressures in housing supply for this section of the housing market, particularly for seasonal workers.

Box 1 - Figure 2 - Within-year migration, by year and residential status



4.2 Income

As household incomes grow, demand for housing increases. This can be driven by a rising number of households owning a home, or, for those who already own a home, a desire to move to larger or higher quality homes (though given upward pressure on prices, they may simply pay more for the same type of house).

The research on determinants of house prices by the NHPAU estimated a 1% increase in real incomes would increase house prices by 2%, all else equal. Average (mean) real net household income increased by 3% from 2014/15 to 2021/22[29], meaning house prices would have increased by 6%, holding all else equal.

Increasing incomes may enable some households to own a second home, potentially for investment purposes. This increases demand for owned properties, though probably increases the supply of rental properties.

4.3 Interest rates

Interest rates influence house prices through the cost of mortgage lending, impacting demand for first-time buyers and for existing homeowners looking to move. The NHPAU research indicated that all else equal, a 1 percentage point increase in interest rates is estimated to reduce house prices by 3%. However, this was based on data from 1980 to 2007, during which mortgage rates were generally within the range of 5 to 15 per cent. Given interest rates fell below this following the financial crisis and during Covid-19, it cannot be assumed that the original model estimate will hold for more recent time periods, or for Jersey given the data is based on evidence from the UK.

Figure 4.5 shows Bank of England data on the bank rate and the average variable mortgage interest rate alongside the HPI. In the period following the financial crisis up to 2022, global interest rates were at record-lows, stimulating effective housing demand.

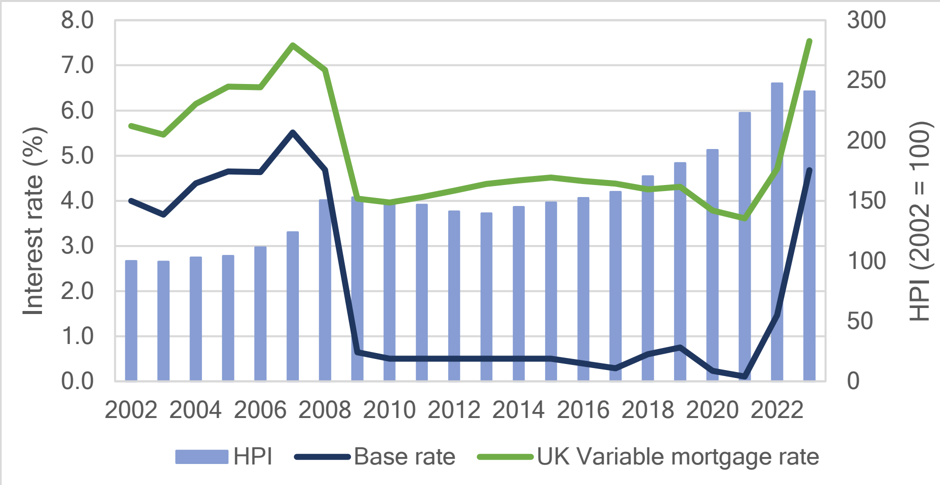
[29] Jersey Household Income Distribution Report, 2021/22, Statistics Jersey.

Figure 4.5

Interest rates and House Price Index.

House Price Index (non-seasonally adjusted), Bank of England Base rate, average UK variable mortgage rate.

Sources: Bank of England, Statistics Jersey.



In addition to interest rates, the availability of credit in Jersey has also been influenced by the entry of two large additional lenders into the market over the last 10 years, particularly in the immediate periods following entry of the lenders. Increased availability of credit can support increased homeownership, but also increase prices.

4.4 Demographics

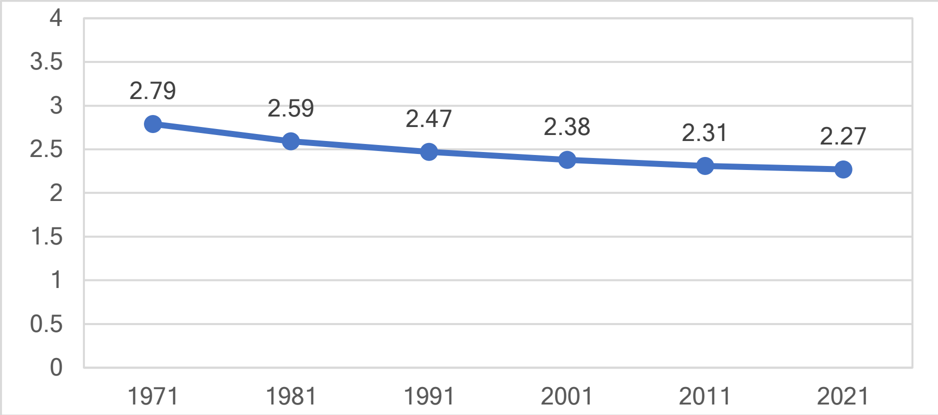
Demand for housing is influenced by structural demographic factors, including changing population and societal shifts in household size. Jersey has experienced population growth, with the population increasing by 18% from 2001 to 2021. Alongside this, societal trends such as an ageing population and rise in single-person households have contributed to declining household size. These two trends increase demand for housing, resulting in house prices rises. The NHPAU research estimates that a 1% increase in the number of households increases house prices by 2%, holding all else equal. Between 2011 and 2021, the number of households increased by 7.2%, implying a 14.4% increase in house prices, all else equal.

Figure 4.6 indicates that the number of people per household has continually decreased over the last 50 years. Whilst the UK also experienced a declining household size from 1971-1991, since then household size has begun to stabilise. Continuing declines in household size would contribute to future demand for housing.

Figure 4.6

Number of people per private dwelling

Source: Statistics Jersey



In addition to the level of population change, the distribution of population change impacts the housing market, given the restrictions on access to housing according to status (see **Box 1**).

4.5 Returns on housing compared to other assets

As well as being a necessary element of consumption, housing is an investment. As such, the return on houses as assets relative to other investment opportunities Islanders have will influence house prices. In the period following the financial crisis up to 2022, interest rates hit record lows. This prompted investors to look for other investment opportunities that provide better returns. With rising property and rental prices, particularly from 2017 onwards, housing has provided an attractive return in Jersey.

Analysis on Royal Court transactions, which cover around 70% of all property transactions in Jersey,[30] indicates the scale of multiple property ownership in Jersey. **Figure 4.7** shows the number and percentage of secondary transactions, defined as where an owner is recorded as buying a property but not selling another in the same year, and has already bought a property within the dataset (in or after 1996).

The number of secondary transactions has increased over time, indicating that more homeowners are buying secondary properties, such as for buy-to-let purposes. This also reflects new flat developments being sold via flying freehold (and thus included in Royal Court transactions) instead of via share transfer. However, the share of additional house purchases has remained broadly constant since 2009 at around 20% of Royal Court residential property transactions.

[30] This excludes share transfer properties, which include many flat transactions. Whilst the data has been cleaned to focus on residential property transactions, there may be some instances where other purchases, such as land, are included. Thus, the data should be treated as an indication of scale of secondary transactions, rather than exact values read.

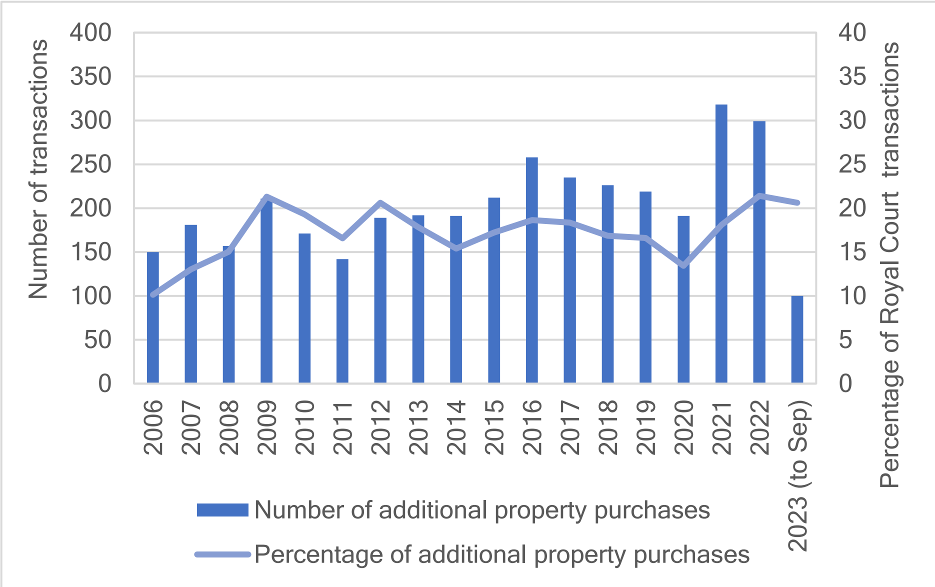
Owners looking for a buy-to-let property are often less credit-constrained than first time buyers, and with buy-to-let mortgages, can release equity in their own home to purchase a second property. Whilst this can increase competition for homes, potentially pushing up house prices, it also positively impacts rental supply, potentially pushing down rental prices.

Figure 4.7

Additional property purchases, Royal Court transactions

Additional purchases where buyer has previously purchased property since 1996 and purchases another property without an according sale. Excludes share transfer property transactions.

Sources: Public Registry Jersey, Panel calculations



4.6 What drove the change in prices experienced over the last 15 years?

Despite strong supply growth in the early 2000s, the house price index rose by 50% between 2002 and 2008. This was likely driven by rising incomes and demographic change (population increase combined with falling household size). Lending conditions were also more relaxed prior to the financial crisis, with evidence of a higher average loan-to-value ratio on mortgages prior to 2007.

In the period following the financial crisis, house prices stagnated and transactions slowed. This is despite falling variable and fixed interest rates contributing to mortgage costs falling as a proportion of income, suggesting house prices are sticky downward. It may also reflect lenders requiring higher deposits. Transactions began to pick up from 2014, with sharp house price rises following from 2017 and continuing through the Covid-19 period.

Demand factors driving this increase include record low interest rates and the entry of more mortgage lenders easing lending conditions and rising incomes. Stakeholders also indicated rising demand for larger properties due to lifestyle changes following the Covid-19 pandemic. Whilst supply increased in this period, new completions were lower than in the early 2000s period.

Private rental prices also picked up from 2017 onwards, a trend not seen till later in the UK. This partly reflects that the rental index is based on advertised rental data and so does not reflect the actual price paid for new or existing lets. Advertised rental prices are likely to pick up ahead of realised price increases for new and existing lets. However, it is unclear exactly why rental prices rose so quickly from 2017 onwards, as population change in the 2011-2021 Census period was primarily in the first half of the Census period.

5 Economic Impact

A high cost housing market is harmful to an economy, through its effect on productivity, the labour market and investment.

5.1 Labour market - job re-allocation

Sustained productivity growth relies on a fluid job market where high productivity firms can grow by hiring, and low productivity firms shrink or exit the market. High housing costs act a barrier to this, on one side making it more difficult for high productivity firms to attract workers, but on the other side, high mortgage debt can make households reluctant to move away.

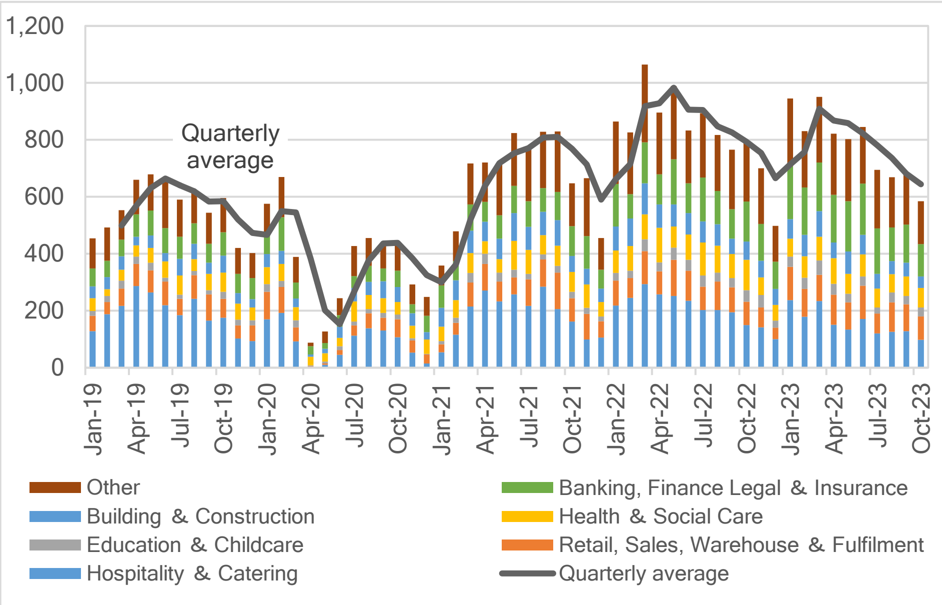
Firms relying on workforces with registered status (e.g. seasonal labour) are likely to face particular pressures attracting labour, as the number of registered accommodation units has declined over time, and there may be housing quality issues, with the registered accommodation sector most likely to experience overcrowding (see **Figure 1.10**). **Figure 5.1** shows how vacancies have changed by sector, with overall vacancies seeing a marked increase since the Covid-19 pandemic.

Figure 5.1

Vacancies by sector

Number of private sector vacancies by sector posted on the Government of Jersey website. Postings on the site can be given three sector categories; for this chart, vacancies are assigned to the first sector listed. Postings with no sector listed are excluded.

Source: Customer and Local Services



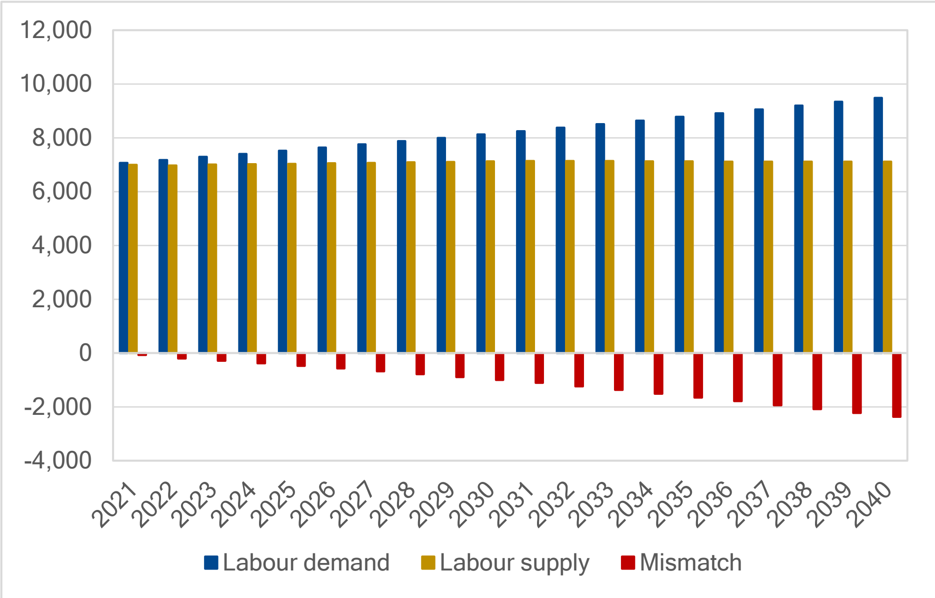
Wages, particularly in the private sector, are also likely to be driven up by high housing costs. For key workers, such as those in the health and care sector, additional key worker accommodation or support with housing will be necessary. Being able to attract workers in the health and care sector is particularly important given Jersey's ageing population. Modelling scenarios (**Figure 5.2**) show an increasing mismatch between labour demand and labour supply in the health and care sector up to 2040, with demand exceeding supply by over 2000 workers by 2040.[31]

Figure 5.2

Labour demand and supply in the health and care sector, 2021 - 2040

Modelling using population projections from Statistics Jersey and a net migration scenario of +325 people per year.

Sources: Statistics Jersey, Economics Unit, Department for Economy



Increasing house prices affect household behaviour through work-leisure choices for subsets of households. As rising prices increase wealth for homeowners, some households choose to work less in favour of more leisure time (or vice versa for wealth losses). Research in the UK finds that this occurs for specific cohorts of homeowners, with a 10% increase in local house prices relative to national trends associated with a reduction in the labour market participation rate of 4.4% for men close to retirement age.[32] As an increasing number of workers near retirement in Jersey, rising house prices could incentivise those close to retirement to work less.

5.2 Productivity - investment

House price rises affect investment and consequently productivity through two channels, the collateral channel, whereby households can use increased housing wealth to fund non-housing investments, and the crowding out channel, where investment flows are diverted to housing from more productive assets. The collateral channel suggests that high house prices can benefit productivity, as households can use assets as collateral to finance firms borrowing for new investments, or to start a new business.

Conversely, the crowding out channel suggests that rising house prices can divert more capital into the housing sector, crowding out non-residential investment in activities with higher productivity. This occurs as a firm's ability to borrow is often based on their existing assets, so firms with existing

[31] This uses a net migration scenario of 325 people per year up to 2040.
[32] Disney and Gathergood (2016). House prices, wealth effects and labour supply.

property and/or land assets often find it easier to borrow despite evidence indicating that on average they are less productive.[33]

If rising house prices result in a larger effect of the crowding out channel on investment compared to the collateral channel, this results in capital misallocation, negatively impacting productivity. This can be exacerbated by lenders who face capital constraints, so in a time of rising house prices engage in more mortgage lending but may reduce lending to businesses. However, as business lending is split between traditional banks and private lending, it is difficult to estimate the effect of this in Jersey.

5.3 Economic growth

Changes in house prices are often correlated with changes in economic growth. A housing market characterised by highly leveraged households can exacerbate economic fluctuations, even if the cause of the fluctuation lies outside of the housing market.

As housing is the most important source of wealth for many households, increasing house prices make homeowners better off, increasing consumer confidence and thereby spending through a 'wealth effect.' Conversely, if house prices decrease, homeowners are likely to reduce consumption, particularly if there is a risk that their mortgage is greater than their house is worth. Recent research from the International Monetary Fund across a range of European countries finds that real house price growth increases consumption, but the effect is short-lived and reduces over time. They estimate that real house price growth (decline) of 1% results in a 0.13 percentage point increase (decrease) in consumption, with the effect reducing over six quarters.[34]

Housing also affects economic growth through the construction sector. The construction, mining and quarrying sector accounted for 7% of Jersey's economy in 2022, rising from around 5% in 2000.[35] This compares to an OECD average of construction accounting for 6% of Gross Domestic Product (GDP), 4% in Guernsey and 6% in the UK. UK research notes a strong correlation between housing market activity and construction, whereby high transaction levels indicate profitability to the construction sector, inducing further housing starts.[36] Construction is thus considered a 'leading indicator' of economic activity.

[33] Doerr (2020). Housing booms, reallocation and productivity.
[34] International Monetary Fund (2023). Feeling Rich, Feeling Poor: Housing Wealth Effects and Consumption in Europe.
[35] As measured by Gross Value Added (GVA).
[36] Meen and Whitehead (2020). Understanding affordability: the economics of housing markets.

5.4 Impact of high interest rates

In periods of high interest rates, highly indebted households can cut back on consumption to meet mortgage payments, or default on their mortgage payments. This can exacerbate economic downturns, and if the rate of repossessions increases, can result in falling house prices.[37]

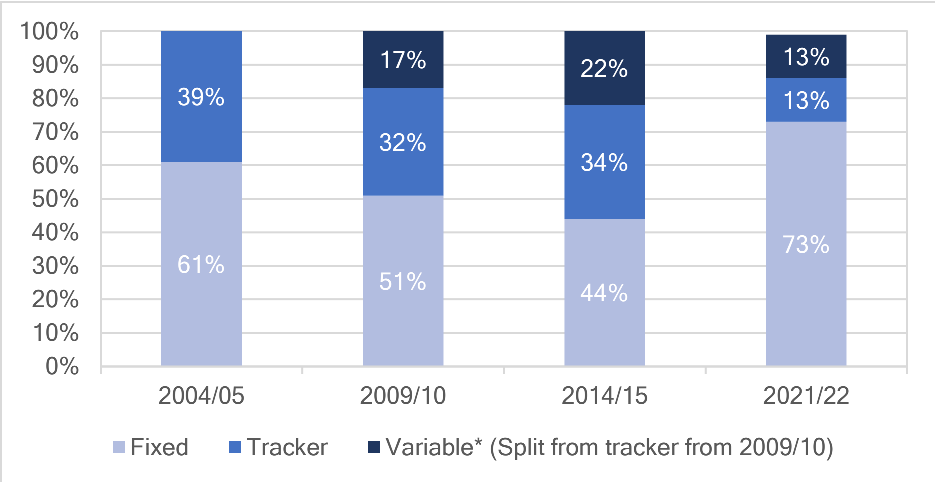
The impact of rising interest rates on households depends on the proportion of homeowners with mortgages, the split between fixed and variable rate mortgages, and the distribution of loan-to-value ratios. **Figure 5.3** illustrates the types of mortgages held by households, using data from Jersey household expenditure surveys. The proportion of fixed rate mortgages declined in the 10 years from 2004/5 onwards from 61% to 44%, corresponding to a period in which the Bank Rate reached a low of 0.5%. The latest data estimates 73% of household mortgages in 2021/22 were on a fixed rate, insulating many Jersey households from the impact of higher interest rates throughout 2022 and 2023. However, as households refinance, their mortgages will see significant increases in payments.

Figure 5.3

Type of mortgage held by households

Survey data on households with a mortgage split by the proportion of mortgages on a fixed, variable or tracker rate.

Sources: Jersey Household Spending Report 2021/22



In June 2023, the Government of Jersey requested banks and other mortgage providers to make a commitment to adhere to the principles of the UK Mortgage Charter, which is intended to provide customers greater short-term support and flexibility to avoid repossessions, where possible. In the most recent Jersey Opinions and Lifestyle Survey, 1% of owner-occupiers reported that they were in arrears for mortgage payments.[38] This is similar to the UK, where 1.1% of all homeowner mortgages were recorded to be in arrears in Q4 2023.[39]

[37] Breedon and Joyce (1993). House prices, arrears and possessions: A three equation model for the UK.
[38] Jersey Opinions and Lifestyle Survey Report 2022, Statistics Jersey.
[39] UK Finance, Arrears and Possessions.

There is no historical data available on repossessions, but evidence from some mortgage lenders indicates that repossessions are rare in Jersey. However, lending at high income multiples can make households more vulnerable to arrears and repossessions.

5.5 Inflation

Housing costs have been a key driver of inflation in recent quarters. Housing costs in the RPI include rent and housing purchase costs, and account for a fifth of the basket of goods and services. As interest rates began to rise throughout 2022 and 2023, the impact of housing costs on inflation was more evident, for example, in December 2023, RPI was at 7.5%, of which 3.8 percentage points were derived from housing costs (see **Figure 5.4**).

However, it is important to note that the methodological approach in measuring RPI assumes all mortgage holders are on variable rates and that any increases in the Bank Rate will flow immediately to consumers. In reality, the impact of rising interest rates will affect many households later given the high proportion of households with fixed rate mortgages. If data allows, the Panel suggests amending how mortgage rates enter the RPI to account for mortgage holders being on a mix of fixed, tracker and variable rate mortgages, taking account of how the UK has tackled this issue.

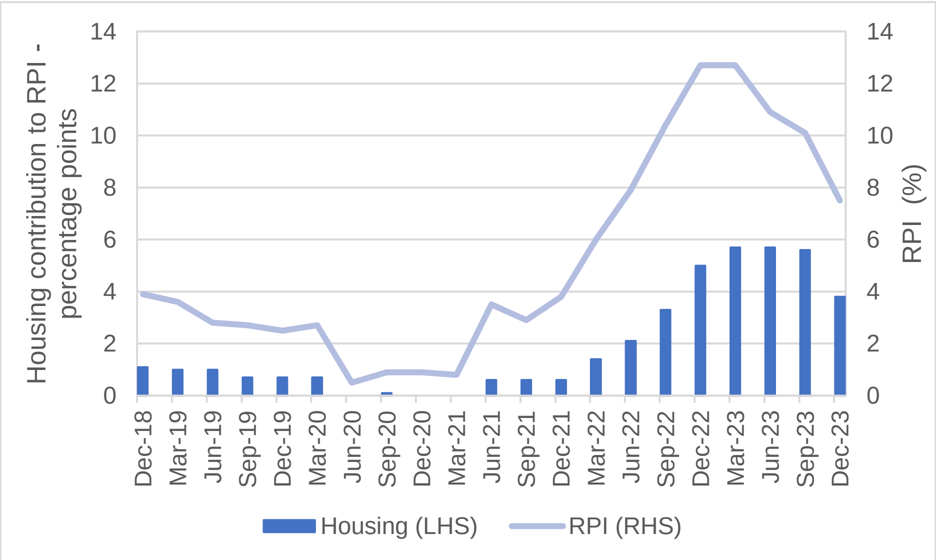
Price increases for households renting social housing from Andium are capped at 4% per year; however, stakeholders have indicated that often private rental households face rent increases linked to RPI.

Figure 5.4

Housing contribution to RPI

Retail Price Index and contribution of housing to the overall RPI.

Sources: Statistics Jersey



5.6 Inequality

OECD cross-country comparisons link higher rates of home ownership with lower wealth inequality. However, rising house prices make it more difficult for households to get on the property ladder, widening inequalities between homeowners and renters. This is particularly the case in an economy such as Jersey, where income levels are high and housing costs are a large share of expenditure.

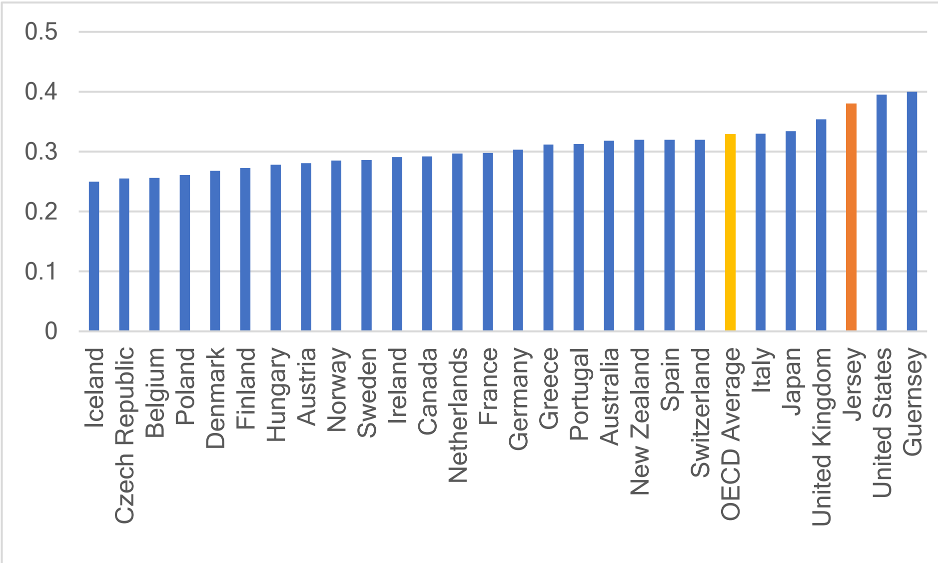
Income inequality in Jersey is high. **Figure 5.5** compares income inequality across a range of OECD countries using the Gini coefficient, where 0 equates to complete equality and 1 to complete inequality. Jersey's Gini coefficient is 0.38, above the OECD average.

Figure 5.5

Income inequality, Jersey and selected OECD countries

Gini coefficient (0 = perfect equality, 1 = perfect inequality)

Sources: Statistics Jersey, OECD.



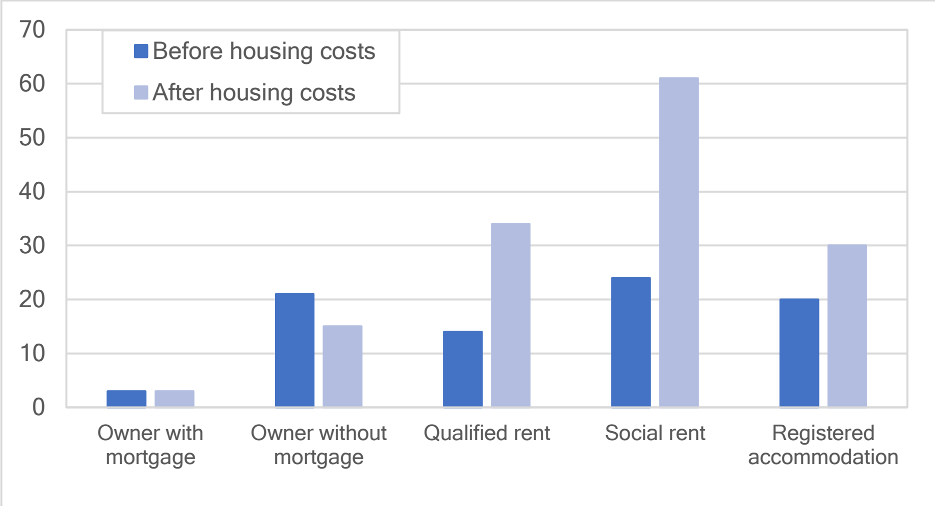
If a household has income below 60% of median income, they can be classed as in 'relative low income'. Overall, 16% of households were in relative low income according to the 2021/22 household income survey. Households in the social rental sector were most likely to be in relative low income, where over 60% of households were in relative low income after housing costs (**Figure 5.6**).

Figure 5.6

Proportion of households in relative low income, by tenure

Proportion of households in relative low income, before and after housing costs.

Sources: Statistics Jersey



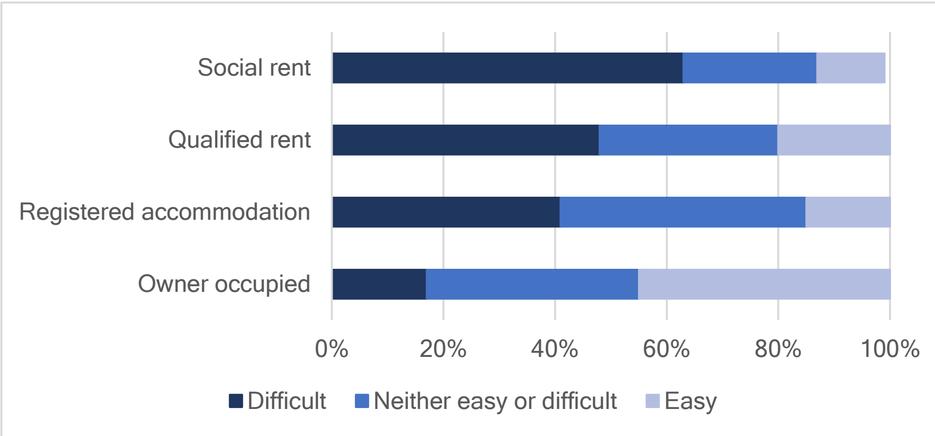
This corresponds with households in social rental being more likely to report finding it difficult to cope financially compared to households in other tenures, as **Figure 5.7** shows. Overall, households in rental properties are much more likely to report finding it difficult to cope financially than owner occupiers.

Figure 5.7

Proportion of households that find it easy or difficult to cope financially, by tenure

Jersey Opinions and Lifestyle Survey Report, 2023.

Sources: Statistics Jersey



High house prices mean fewer young households can afford to become homeowners, and for those who do, many rely on financial help from family to get onto the property ladder. This has consequences for inequality. Around half of all first-time buyers in their 20s in the UK in 2018-20 received financial help to purchase their home, mainly from parents. Buyers with homeowning parents were more likely to receive a deposit than those with renting parents and received a larger deposit.[40] As housing wealth and ownership becomes increasingly associated with parental circumstances, this has important implications for inequality and social mobility.[41]

[40] Help onto the housing ladder: the role of intergenerational transfers | Institute for Fiscal Studies (ifs.org.uk)
[41] Housing and social mobility in Jersey

6 Impact of Government

6.1 Tax policy

Taxation of housing reflects its role as both a consumption and an investment good. **Figure 6.1** shows that property tax[42] as a percentage of GDP is slightly lower in Jersey than the OECD average, at 1.5% compared to 1.9%. Property tax accounts for a small share of overall taxation at 6.5% of total tax revenue. This is slightly higher than the OECD average of 5.6% (**Figure 6.2**).

Figure 6.1

Property tax as percentage of GDP, Jersey and selected OECD countries.

Data for 2021. Property tax as defined by the OECD, see footnote 42.

Sources: Revenue Jersey, OECD.

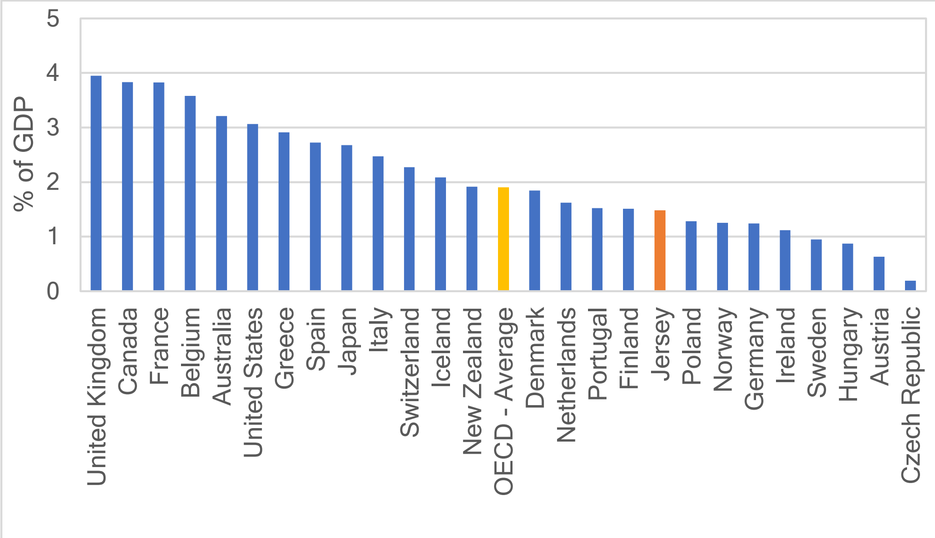
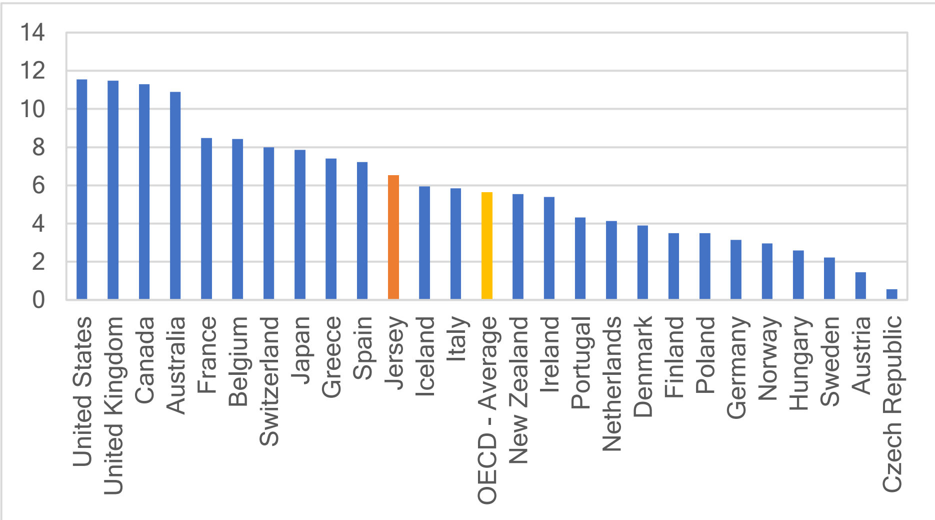


Figure 6.2

Property tax as percentage of total taxation, Jersey and selected OECD countries

Data for 2021. Property tax as defined by the OECD, see footnote 42.

Sources: Revenue Jersey, OECD



[42] This uses the OECD definition of property tax, defined as recurrent and non-recurrent taxes on the use, ownership or transfer of property, including taxes on immovable property or net wealth, taxes on the change of ownership of property through inheritance or gift and taxes on financial and capital transactions.

Table 6.1 sets out how owner-occupied and non-main residence housing is taxed in Jersey, split by the stages at which housing can be taxed - on acquisition of the asset, whilst holding, and on disposal.

Table 6.1

Tax treatment of property in Jersey

Treatment of tax in by stage of holding property in Jersey (on acquisition of property, whilst holding and when disposing property).

Source: Government of Jersey

	Acquisition of asset	Holding of asset			Disposal of asset	
	Transaction tax	Income from asset	Interest expenses deductible	Value from asset	Capital gains	Estate & inheritance tax
Owned property	Yes	No	Yes[43]	Yes	No	No
Rented property	Yes	Yes	Yes	Yes	No	No

On acquisition of property, a transaction tax (enveloped property transaction tax or land transaction tax) is levied on the property, and any mortgage on the property.[44] **Table 6.2** sets out how the transaction tax varies by property value; however, different rates apply for specific types of transactions. First-time buyers receive an exemption up to £350,000 and reduced rates up to £700,000, whilst a 3-percentage point uplift on stamp duty applies to non-main residence purchases (introduced in Jan 2023). Transaction taxes are widely applied across the OECD, with 30 out of 38 OECD countries applying transaction taxes on housing.

Table 6.2

Stamp Duty or Land Transaction Tax by value of transaction range

Stamp Duty or Land Transaction Tax by value of transaction for property purchases. Note different rates apply in some circumstances (e.g. first-time buyers, non-main residence purchases).

Source: Government of Jersey

Value of transaction range		Stamp Duty or Land Transaction Tax payable
£1	£50,000	0.5% subject to a minimum of £10
£50,001	£300,000	1.50%
£300,001	£500,000	2.00%
£500,001	£700,000	3.00%
£700,001	£1,000,000	3.50%
£1,000,001	£1,500,000	4.50%
£1,500,001	£2,000,000	5.50%
£2,000,001	£3,000,000	7.50%
£3,000,001	£6,000,000	10%
Over £6,000,000		11%

Owners and occupiers of land, which includes housing, pay Rates in Jersey. Rates are based on the rateable value of the land which is determined by the attributes (these include size, location, accommodation, condition, use and quality). The rateable value of land may be reassessed if the attributes change (e.g. extension, new conservatory etc.), and in certain other circumstances as set out in the law. The Rates include parish rates that go towards parish general expenses and islandwide rates that are paid to the Treasury. The

[43] This is being phased out, with the cap reducing by £1,500 per year starting from 2017 through to 2026.
[44] This excludes share transfer properties, which do not go through the Royal Court.

parish rates depend on the parish budget for the year (thus differing by parish), whilst islandwide rates are the same across parishes (different rates apply for domestic and non-domestic property). An Island wide revalorisation of rateable value of land was last undertaken in 2003, so is not reflective of the current land value.

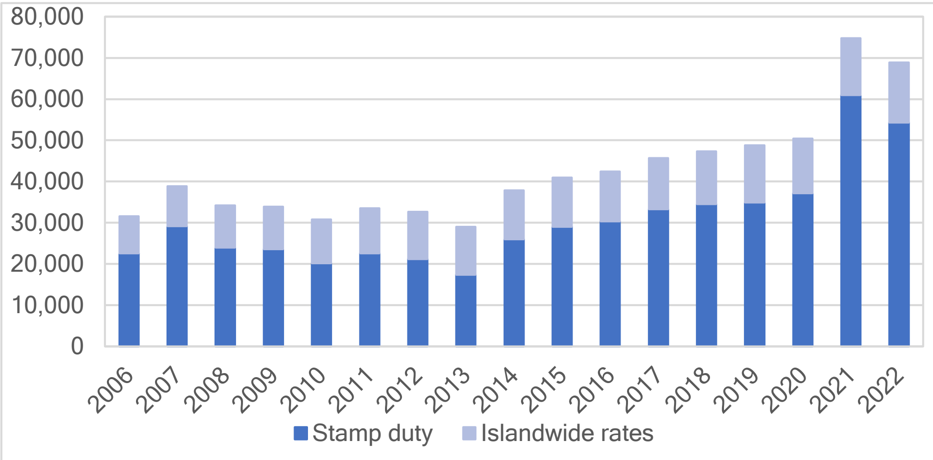
Figure 6.3 shows how the split between stamp duty and rates (only islandwide rates included here) has changed over time, with stamp duty accounting for an increasing proportion of property tax in Jersey, at 79% of property tax revenues in 2022. This differs from OECD countries, where on average, transaction taxes on housing account for a lower proportion of property tax revenues than recurrent taxes on housing (such as rates in Jersey).

Figure 6.3

Property tax revenues, split by type of property tax (£,000s)

Note: Parish rates are not included.

Source: Revenue Jersey



Transaction taxes are easy to administer and offer high compliance rates as the purchase price is highly visible. However, they are highly distortionary, discouraging transactions that would result in a more efficient allocation of assets. Research finds that short-distance, housing-related relocations are more strongly affected by transaction tax changes than long-distance, job-related moves.[45] This indicates transaction taxes will affect transactions where households are moving within Jersey more than households moving in or out of Jersey. Stakeholders indicated the recent uplift in stamp duty for non-main residence properties had reduced transactions. However, it is difficult to disentangle the impact of this stamp duty uplift relative to the large increase in interest rates in 2023.

Mortgage interest relief is provided for owner-occupiers and owners of rental property but is being phased out for owner-occupiers by 2026. Evidence suggests that where housing supply is constrained, mortgage interest relief can result in higher house prices, incentivising purchases of larger and more

[45] Hilber and Lyytikäinen (2017). Transfer taxes and household mobility: distortion on the housing or labour market?

valuable homes, rather than supporting new households to purchase a house.[46] The Panel welcomes the phase out of relief for owner-occupiers.

Levying no taxes on the disposal of housing assets, either through capital gains or inheritance tax, should make the housing market in Jersey relatively more fluid than in other countries, resulting in a higher level of transactions. Taxation of secondary housing assets is likely to be progressive, affecting those at the top of the income distribution relatively more, as secondary housing wealth is generally more concentrated at the top of the distribution.

Whilst property taxes such as transaction taxes can be highly distortive, taxes whilst holding the asset (e.g. Rates, council taxes) are among the least damaging taxes to long run growth. These taxes are typically capitalised into house prices over time, so can contribute to stabilising fluctuations in the housing market. However, there can be liquidity concerns for income-poor but asset-rich households, who are typically elderly homeowners.

Across the OECD, recurrent taxes on housing are commonly levied on outdated property values (with Jersey levying rates depending on rateable land as in 2003), and when low tax burdens arise from outdated values, this reduces the incentive to use current housing stock efficiently.[46] For example, if large house price rises are not accompanied by higher property tax burdens, older households are not incentivised to downsize to smaller and less valuable homes, where the tax burden would be lower.

Inheritances can facilitate homeownership for some households, either through wealth transfers helping young households get a deposit, or through inheriting housing assets directly. Research across OECD countries indicates a large gap in homeownership rates between young households that have received a gift or inheritance and those that have not.[31] Where homeownership rates between these groups are large, receiving a gift or inheritance is likely to play a decisive role in facilitating home ownership for young households. Comparable data is not available for Jersey; however, a lack of inheritance tax may mean that inheritances play a larger role in facilitating homeownership for some households.

6.2 Mortgage Regulation

Currently, there is no direct regulation of consumer lending (including mortgages) in Jersey, except in relation to anti-money laundering and the countering of the financing and proliferation of terrorism. A proportion of lending in Jersey is provided by regulated deposit-takers (banks) whose deposit-taking is supervised by the Jersey Financial Services Commission

[46] OECD (2022). Housing Taxation in OECD countries.

(JFSC). These banks are subject to governance controls and other requirements, but their lending business does not have regulatory requirements. Many mortgage providers in Jersey state they have largely adopted the UK Mortgage Code of Business principles.

The Government is currently consulting on consumer lending regulation, which will cover all forms of personal loans including mortgages. It is likely to require lenders to register for a license with the JFSC, to conduct checks to ensure that prospective borrowers can afford the loan and are not vulnerable to exploitation and is expected to primarily affect the private lending mortgage market, where lenders are less likely to already conduct affordability checks.

In the UK, macroprudential policies require lenders to calculate debt service ratios of prospective borrowers based on an interest rate 3 percentage points higher than the current rate, and to limit the number of very high loan-to-income loans that they could supply, with no more than 15% of new mortgages able to be at loan-to-income ratios of 4.5 or greater. In Jersey, many mortgages are offered at loan-to-income ratios of 6. However, despite there being no mortgage regulation, many lenders in Jersey indicated that they do stress test potential borrowers to rises in interest rates as part of their application process, and repossessions where borrowers are unable to afford their mortgage repayments are rare. Any future work on the mortgage market in Jersey would benefit from considering whether limits on loan-to-income or loan-to-value ratios would be appropriate for Jersey mortgages.

6.3 Social housing

Section 5.6 showed that inequality in Jersey is high. In a country with high inequality and a high proportion of income spent on housing, there is likely to be a significant portion of the population unable to access housing without a form of subsidy. Social housing has an important role to play in ensuring this portion of the population can have access to good quality, low-cost housing.

Support with housing costs is provided through provision of social housing, and income support. Social housing is provided in Jersey for people with qualified status that are either over 30 with income under specific limits, have a disability that require a special type of housing, or in a family with income under specific limits.[47] After applying for social housing, households are placed on the affordable housing gateway list, where an application is considered based on need.

13% of households lived in social housing in 2021, a proportion which has remained relatively stable since 2001 and is similar to many OECD countries.

[47] Affordable Housing Gateway (gov.je)

(**Figure 6.4**).[48] Around 80% of social housing stock is provided by Andium, a state-owned social housing provider, with the remaining provided by a small number of housing trusts.

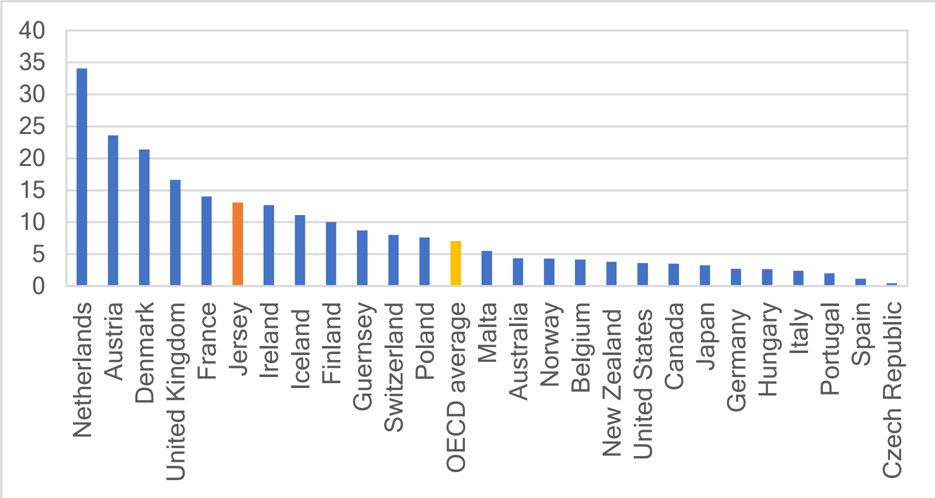
As of December 2023, around 3,500 households were in social housing and claiming income support.[49] A further 1,200 households who received income support for housing costs were in private rental properties.

Figure 6.4

Proportion of households in social housing, Jersey and selected OECD countries

Census data from 2021 used for Jersey. OECD data from 2020 or latest year available.

Sources: Statistics Jersey, OECD



As of December 2023, 674 households were listed as waiting for social rental accommodation, falling from 883 the previous December, reflecting 232 new homes being completed by Andium and reviews of gateway applications where households have been removed from the waiting list. The waiting list was evenly distributed between those already in the social housing sector who need to transfer to a different property (48%) and those outside the sector (52%), such as those in private rental, or living with family.

Households in social housing pay a maximum of 80% of market rents, which was reduced from 90% of market rents in 2023. This is be seen in **Figure 6.5,** which splits Andium tenants by the proportion of rent paid. In 2022, 68% of tenants were paying over 81% of market rents, however this fell to 14% in 2023.[50] A minority of tenants pay below 60% of market rents, largely reflecting legacy tenancies. This can act as a barrier for tenants moving to a property that more appropriately reflects their needs if they would pay more under the new tenancy.

[48] This chart is for context. It does not account for the different structure of housing markets across OECD countries and how this affects relative need for social housing.
[49] In this context, social housing is defined as States Rental and Housing Trust Rental.
[50] Note: the proportion of tenants paying above 80% for market rents increased in 2024. This is due to assessed market values falling and, in these cases, tenants have had actual rents frozen.

Figure 6.5

Andium tenants, split by proportion of market rents paid

Based on estimated rent paid in relation to estimated market rent of property in year.

Source: Andium

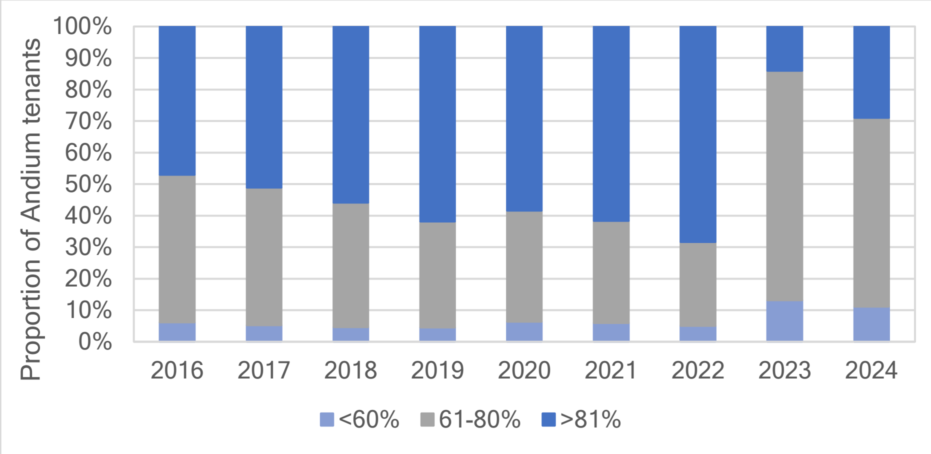


Table 6.3 shows how the affordable housing waiting list, split by size of property needed, compares to the planned delivery of new homes by Andium from 2024-2030. Whilst the proportion of 1 bed homes is largely reflective of the affordable housing waiting list, there appears to be a disparity in terms of 2-bed and 3-bed homes. However, as a portion of households on the affordable housing waiting list will be in social housing, this will create further supply.

Table 6.3

Planned delivery of rental homes by Andium and affordable housing waiting list by property type

Households listed as waiting for affordable housing as of December 2023, compared to planned rental delivery by Andium from 2024 to 2030.

Source: Andium

Number of bedrooms	Proportion of current affordable housing waiting list	Proportion of planned rental delivery by Andium 2024-2030
1 bed	49%	50%
2 bed	20%	35%
3 bed	24%	13%
4 bed	7%	2%

Aside from social rental accommodation, there are assisted purchase schemes available to first time buyers who cannot afford to purchase a property suitable for their needs in the open market. This is provided they have an income below set limits but can meet the long-term financial commitment of purchasing a property. The two primary schemes are:

- Andium Homebuy – an assisted purchase scheme where first-time buyers can purchase a home utilising a deferred payment of up to 25% of the market value on a range of properties.
- First Step - open-market shared equity scheme where first-time buyers can access a home with up to a 40% equity-loan providing they have a 5% deposit.

At the end of 2023, around 2,550 households were registered on the list for an assisted purchase home. This demonstrates a large demand for a more affordable path to home ownership. However, not all these households will be able to buy given their income or available deposit.

For successful assisted purchase buyers in 2023, the average length of time on the waiting list ranged by property type, with households waiting for 1.2 years for a 1 bed flat, or 3.3 years for a 3-bed house.

7 Future Outlook

In the near term, housing prices will be affected by demand and proposed new supply. Planning permission applications granted indicate future supply, with an average of 452 net housing units granted from 2022-2023. For the rate of supply to increase compared to the 2012-2021 period, at least 83% of units with planning permission would need to be built.[51]

On the demand side, population has remained relatively stable from 2019-2022, however it is unclear whether this trend will continue given this period includes Covid-19 and the UK's exit from the EU. Unless Jersey's population begins to fall, there will be a continuing need for more housing in the near term given changes in life expectancy and continuing declines in household size.

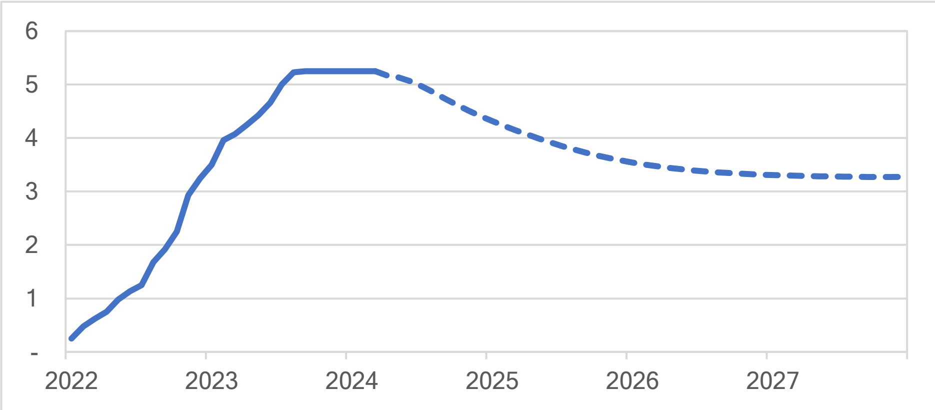
High interest rates have reduced affordability, contributing to a slowing housing market. Low transaction levels indicate potential sellers are holding off selling at lower prices. However, if nominal prices remain similar to 2021/2022 levels when more sellers come back to the market, real house prices will have fallen. **Figure 7.1** shows that bank rate is forecast to fall from mid-2024 onwards but remain significantly higher than the pre-2022 rate.

Figure 7.1

Future UK Bank Rate expectations (%)

Average monthly expectations for the future UK Bank Rate (dotted line), and the actual value for the UK Bank Rate (solid line), based on Feb 2024 expectations.

Source: Bank of England



The Panel's current assumption is for earnings growth to remain lower than inflation in 2024 before outpacing inflation from 2025 onwards. Real earnings growth will enable more households to consider buying or moving property.

Many households with fixed rate mortgages have been protected from the initial rise in interest rates. However, more households will come off their fixed rate deals over the next few years, causing some to cut back non-housing expenditure or fall into mortgage arrears, particularly if falling interest rate expectations continue to not be reflected in mortgage rates. This will have consequent effects for the rest of the economy, such as retail and hospitality.

[51] Planning permission lasts for 3 years before a new application is necessary.

Rent rises in line with inflation will worsen affordability for renters, though this may ease as inflation falls below income growth. However, landlords with buy-to-let mortgages will be paying higher interest rates and may pass those onto renters, putting upward pressure on rents relative to inflation.

Overall, the Panel's assumption is for house prices to remain stable in 2024. However, there is a risk that prices may fall in the short term. Affordability in the housing market is unlikely to change in 2024 with base interest rates not forecast to fall until the middle of the year and inflation outpacing earnings growth. As these factors begin to ease prices could again increase, particularly without higher rates of supply. With high inequality and rising housing costs, a greater number of households may require subsidised housing, and this will increase the number of people waiting to be housed.

The Panel will consider the information in this report in developing its next round of economic assumptions on house prices and transactions in Spring 2024.

High housing costs are making it harder for businesses to attract and retain workers, and for young Islanders to remain in or move to the island. In this context and with an ageing population, rising housing costs over the longer term will have severe consequences for the labour market and productivity in Jersey.

8 Appendix – Affordability for rental households

First-time buyers are most likely to experience affordability challenges in purchasing homes. This section considers affordability for potential first-time buyers by looking at whether households in the private rental sector can borrow sufficiently to buy a house.[52]

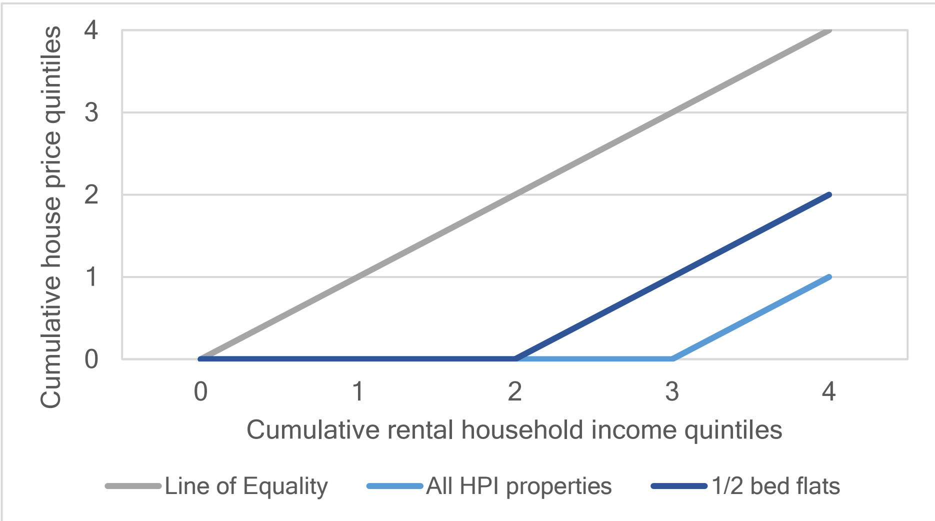
Figure A1 shows how affordability changes across the rental household income distribution and house price distribution. This illustrates the proportion of the house price distribution a rental household in each income quintile could purchase without borrowing more than 4.5 times their income and assuming a 10% deposit. The line of equality represents an equal distribution of affordability, such that a rental household in the lowest quintile of income for rental households could afford to buy a house in the lowest price quintile. Across all properties, only rental households in the highest income quintile (with an income of around £89,000 or more[53]) can afford properties in the lowest price quintile without borrowing over 4.5 times their income and assuming a 10% deposit. For 1 and 2 bed flats, rental households in the third income quintile (with an income of around £69,000 or above) can afford a flat in the lowest house price quintile under these assumptions.

Figure A1

Purchase affordability for rental households

Affordability across the house price and private rental household income distribution. Data from 2023.

Sources: Statistics Jersey, Panel Calculations



However, this assumes that households have access to a 10% deposit. **Figure A2** shows the deposit to household disposable income ratio for rental households across the income and house price distribution. For rental households in the lowest income quintile, a deposit ranges from 1.2 to 2.8

[52] This focuses on properties available to those with entitled or licensed status (i.e. excluding registered properties).
[53] This is based on gross income in the 2021/22 Income Distribution Survey, with incomes uprated to 2023 by applying the Average Earnings Index.

times annual household income, compared to those in the highest quintile, where deposits range from 0.5 to 1.2 times annual household income.

Figure A2

Deposit to income ratio for rental households

Ratio of deposit to net income for rental households across the house price distribution. Assumes a 10% deposit. Data from 2023.

Sources: Statistics Jersey, Panel Calculations