

DAVID SKELTON
**HOMES
FOR ALL**

RENEWAL



**for fair wages
fair prices – and a
house to live in**



**VOTE
UNIONIST**

HOMES FOR ALL

Extending home ownership
to the low-paid

WILL SHE EVER
HAVE A HOUSE
OF
HER OWN?



The Conservatives
say she should...
because

CONSERVATIVES BELIEVE IN OPPORTUNITY

as promised
A
MILLION
HOUSES

**VOTE
CONSERVATIVE**

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HOMES FOR ALL: EXTENDING HOME OWNERSHIP TO THE LOW-PAID

Summary

Housing always has been, and always should be, at the core of the Conservative message. It stands for so many important Conservative beliefs, from empowerment to opportunity. But the housing crisis that Britain has suffered for the past decade, as well as the fall in home ownership – Britain now has lower home ownership than the EU15 average – is putting the achievement of a “property owning democracy” in peril.

This paper argues that housing should be a central priority for the new Government and the new Prime Minister. The European referendum showed that many ‘left-behind’ voters are now rebelling against a system that they believe is no longer delivering for them. This re-emphasised the importance of creating an economy in which everybody feels that they have a genuine stake and an economic and political system that genuinely works for everybody. The alternative is increasing division and disengagement. Tackling the housing crisis for those at the lower end of the income spectrum would be one way of tackling this.

It also argues that there should be a role for the state in creating a property owning democracy and to do so would be fundamentally in line with the conservative tradition. Disraeli’s slum clearance programme, the mass housebuilding of Macmillan and the introduction of Right to Buy by Mrs Thatcher are all examples of Conservatives using the state to meet this vision. The Prime Minister has, correctly, talked about creating a country and economy that works for everybody, particularly the low-paid. We believe that this proposal would help her to achieve that goal, along with measures to tackle inequality and revitalise capitalism.

In particular, it argues that:

- **It is important that home ownership once again stretches far down the income scale to the low paid – the “strivers” as Mrs Thatcher would have termed them.** John Major once talked about the “silent have-nots... the dignified poor or near-poor and to the shame of decades of politicians – and I include myself in this – there are still millions and millions of them.” It should be up

to today's politicians to ensure that these "silent have-nots" are no longer stuck in low-paid work, or poor quality rented accommodation.

- The government has already done a huge amount for this group, introducing the new National Living Wage. Extending the Right to Buy to Housing Association tenants will also be transformative for those tenants, while Starter Homes and shared ownership will help many on middle incomes who were previously left priced out.
- But the new government can and should go further. **The Conservatives next wave of housing reforms must be aimed more squarely at an emerging, new generation of low-paid workers.** Those workers who benefit from the Living Wage should also be able to benefit from improved housing and access to home ownership. Increasingly this group live not in social housing, where they can enjoy the Right to Buy, but expensive private rented housing, where they pay so much of their salary in rent they are unable to save anything towards a home of their own, even despite the best efforts of 'Help to Buy' schemes.
- Many of these workers will have been helped and will be helped by the Conservatives' new National Living Wage. We should now make the case, which Labour never will with any real conviction, that they should be able to aspire to own their own home too. Over half of existing private renters on the National Living Wage or below want to own their own home but don't think they ever will. And it is those people who are most likely to be 'stuck' in private renting.¹ **A priority must be to ensure that people on the National Living Wage are also able to genuinely aspire to home ownership.**
- Under existing circumstances, home ownership is an unachievable pipedream for too many. It's clear that the left's traditional answer – old school, poor quality social housing and monolithic estates – isn't the answer to meeting people's aspirations. Equally however, the market is failing to deliver sufficient housing to meet people's demands, especially those on low incomes. A laissez faire approach to meeting housing needs has not been successful over recent decades and suggestions that reforming the planning system or utilising brownfield land alone will solve the crisis represent far-fetched wishful thinking.

1 YouGov/Shelter survey of 3,792 private renters in England, weighted, online, July 2015.

- This paper therefore presents the case for a new generation of ‘Rent to Buy’ affordable homes: quality new homes with a fast track to ownership. They would represent a real and positive legacy that would improve the lives of many people who previously thought they were shut out from home ownership. These would be set at a rent level genuinely low enough to help people save up and buy the property. **They would build on the government’s existing ‘Rent to Buy’ programme, but be significantly scaled up, made more affordable and aimed squarely at working people on low incomes.** They would be delivered through powerful city regions, coupled with the Northern Powerhouse agenda, Housing Associations and investors. They must, however, go beyond the failures of post-war social housing projects.
- This product would help low income earners in all parts of the country where the Conservatives need to gain ground – big urban areas in the South and South West such as London and Bristol, as well as the North east and North West.
- The government should aim to deliver at least 75,000 new Rent to Buy homes each year. This paper presents some ideas for how this could be delivered. However, a reliance on a ‘trickle down’ approach to housing supply should be rejected.
- A dynamic approach to tackling market failure and the associated housing crisis could leave a legacy of a massive expansion of home ownership, spreading its benefits to those who now regard it as entirely beyond reach. It would free millions of workers from the insecurity of poor quality, high cost private rented accommodation and the indignity of the social housing waiting list.
- This idea would form central part of the Prime Minister’s dedicated goal of creating an economy and a society that works for everybody, not just the privileged few. It would do so in a way that transforms life chances and provides an enduring legacy.

DEFINING THE PROBLEM

The ongoing need for Conservative modernisation – and a political opportunity

The last election was the Conservatives' biggest political triumph for decades, with Conservatives winning a great swathe of seats that they were not expected to win, including in parts of the North and Midlands. But it needs to be placed in historical context – the majority of 12 won by David Cameron was the lowest majority won by a Conservative majority government since universal suffrage and many pollsters have suggested that although the result was a positive endorsement of the Conservatives' economic record, it was also against the backdrop of a Labour Party who had failed to restore a reputation for economic competence and had a leader who many voters didn't regard as a suitable Prime Minister and didn't regard as strong enough in a potential alliance with the SNP. Conservatives should be in a position where they are able to fight the strongest potential Labour leadership, as well as the weakest.

The structural problems impacting Conservatism are still largely in place and the party should take advantage of a position of strength in order to address this. A majority of voters still regard the Conservatives as the 'party of the rich' and it still appears to many voters to be a predominantly rural, Southern and wealthy party. Conservatives were level pegging with Labour, on 32 per cent, amongst skilled working class voters, but still trailed Labour by 14 per cent amongst unskilled working class voters. They also trailed Labour by 16 per cent amongst BME voters, although Conservatives did see a marked improvement amongst some ethnic groups. Conservatives still only have one MP in Scotland and lack a single elected representative in major Northern cities, including Newcastle, Liverpool, Manchester and Sheffield.

The leftward lurch of the Labour Party provides an opportunity for Conservatives to address these historic, structural issues. To many of the voters who the Conservative Party needs to attract in the North and Midlands, Corbyn's Labour Party is a metropolitan one that many voters who once formed Labour's backbone don't recognise or relate to. This provides potentially a historic opportunity for Conservatives to break through into Labour's once impenetrable

heartlands. Indeed, we saw in Scotland just how weak Labour's heartlands are when confronted with a credible opposition.

To make the most of this opportunity, Conservatives have to show that they both understand the concerns of and are fixed on the concerns of poorer voters. The National Living Wage is an important example of this kind of policy and the policy that we recommend in this paper has the potential to be equally transformative. It could form a key part of the Prime Minister's goal of creating an economy and society that works for everybody, not just the few. It will bring real benefits to some of the poorest in society, presently trapped in poor quality private rented accommodation and give them a chance to fulfil a dream of home ownership. Such a policy needs to think innovatively – and be willing to challenge assumptions often strongly held on the right – to deliver real and lasting benefits.

The problem: rising private renting, declining home ownership among those on low incomes

Over recent years, home ownership has been in decline. Since its peak in 2003, Britain's home ownership rate fell by 7.3%. Home ownership in the UK is almost 65 per cent, which is below the EU average and well below the levels of 84% in Norway, 67% in Holland and 69% in Sweden. France currently has the same proportion of homeowners as the UK, despite the common perception that the French prefer renting to buying.²

At the same time, the level of private renting has increased enormously, almost doubling in the past decade. There are now 11 million private renters, including 1.5 million families with children stuck privately renting. Figure 1 shows this stark trend. As Figure 2 shows, this trend is largely being driven by the 25–34 age group.

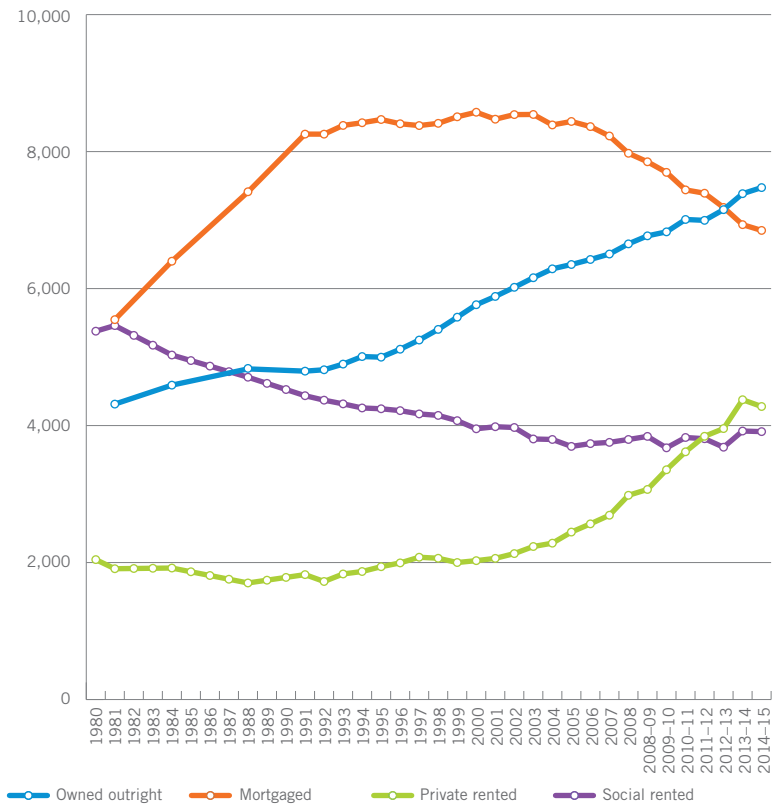
As Savills have argued, however, this is not simply a problem of age – but rather income. In short, home ownership is increasingly becoming the preserve of those on higher incomes. This is a problem affecting the middle, but it is most profoundly hitting those on lower incomes. The divide in home ownership is now a significant driver of inequality.

Figure 3 shows a stark decline of home ownership has taken place among those on low incomes. More of that group now rent privately than own their

2 Eurostat, Homeownership rate by country, 2015.

own home. Figure 4 confirms this trend, showing that the proportion of first time buyers on low incomes (first quintile and second quintile) halved between 2003 and 2015, from 14.1% to 7.1%. The number of first time buyers on the lowest income is now only 1.7%. Home ownership is increasingly becoming the preserve of those on higher incomes – 42% of first time buyers are those on the highest incomes, compared to 34% in 2003–2004). This trend was set in train under the last Labour government.

Figure 1: Overall trends in tenure, England³



3 English Housing Survey 2014–2015.

Figure 2: The decline of home ownership among the age group 25–34, 2001/2 to date, England⁴

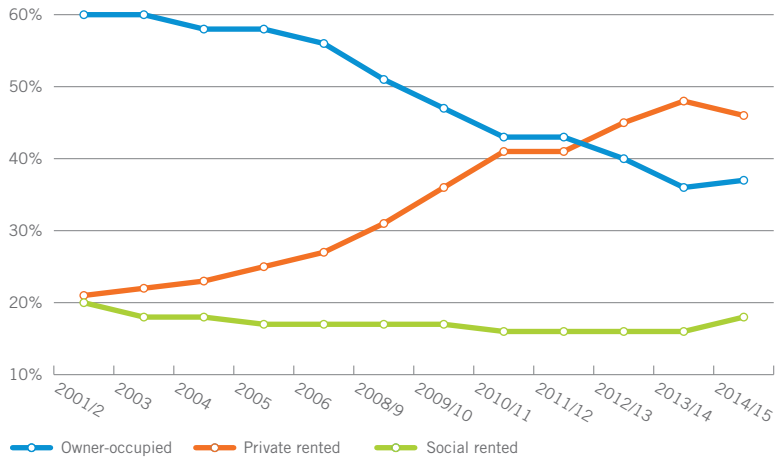
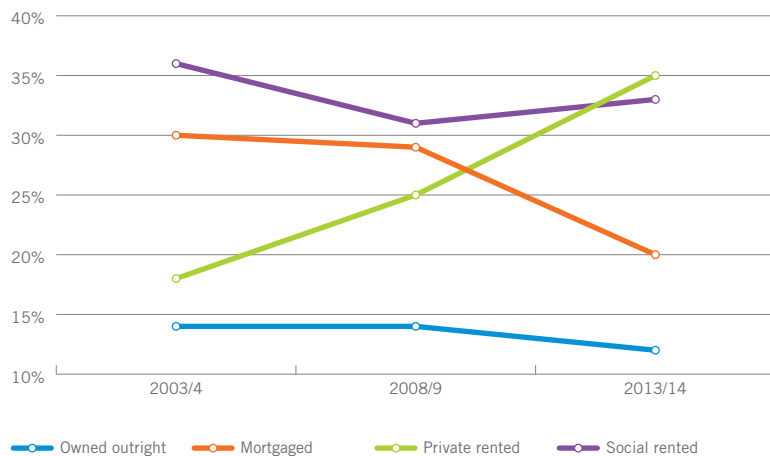


Figure 3: The decline of home ownership among those on low incomes⁵



4 Survey of English Housing and English Housing Survey, DCLG.

5 HBAI, DCLG. This group is all those classed at 70% median incomes and below i.e. those just above the poverty line and all those below it. It accounts for roughly 10 million people in England and is estimated to be all those on incomes from £0 to £20,000 per annum.

Figure 4: Demographic and economic characteristics, first time buyers 2002–2003, 2013–2014 and 2014–2015

All recent first time buyers ⁶	03–04		13–14		14–15	
	Thousands of households	%	Thousands of households	%	Thousands of households	%
First quintile (lowest incomes)	24	3.2%	28	4.5%	10	1.7%
Second quintile	82	10.9%	44	7.1%	34	6.0%
Third quintile	158	21.0%	99	16.0%	115	20.5%
Fourth quintile	245	32.6%	232	37.5%	167	29.6%
Fifth quintile (highest incomes)	242	32.3%	215	34.8%	238	42.2%
All recent first time buyers ⁶	750	100.0%	617	100.0%	564	100.0%

Although recently the social housing waiting list has shrunk due to changes to the waiting list criteria, the trend over recent decades has generally been one of growth for the waiting list. Nationally, there were 1.2 million households on the list in 2015. This includes 24,000 in Tyne and Wear, 81,000 in Greater Manchester, 46,000 in South Yorkshire and 67,000 in West Yorkshire.⁷

The National Living Wage was one of the most important public policy moves of recent years, ensuring that a number of people aren’t ‘stuck’ in low pay. The next priority is to ensure that the same families aren’t ‘stuck’ in low quality, high cost private rented accommodation and are, instead, able to find a way on to the housing ladder as quickly as possible. For many, such a goal seems a mirage at the moment. 52% of private renters on Living Wage and below want to own but don’t think they ever will. 44% of private renters earning £15k to £24k feel the same way.⁸

6 DCLG English Housing Survey, 2002–2003, 2013–2014 and 2014–2015
7 DCLG, Live tables on rents, lettings and tenancies, Table 600, 21 January 2016.
8 YouGov/Shelter survey of private renters in England, July 2015.

The problem: ‘the rent trap’

There are many reasons behind the above decline in home ownership. But two key factors are what could be called a ‘double whammy’ – high house prices and high rents.

House prices have massively outstripped wages over recent decades. Shelter research showed that “if wages had risen as fast as house prices had, an average couple with children would earn an extra £44,000 a year. An average single person in England would have an extra £29,000 on top of their salary while an average couple without children would have an extra £59,000.”⁹

But as important is a second factor: high private rents. In each region of the country, rents have increased by more than inflation. After tax, private renters in England pay 47% of their income in rent. Even if they could be financed, tax cuts alone would not sufficiently alter this: even before tax, 38% of private renters salary goes on rent outside London, and this figure is an astonishing 59% for those in London. This is clearly unaffordable, if we accept the commonly held definition of affordability meaning no more than 1/3 of one’s income going on housing costs.¹⁰ Moreover, these are average figures: affordability is likely to be even worse at the lower end of the income spectrum.

These levels of private rent leave many aspiring home owners on low incomes unable to save anything up towards a deposit on a home of their own at the end of the month. As YouGov/Shelter research in Figure 5 shows, roughly half of such private renters report this to be the case – and it’s likely to be even more acute for those on low incomes. The data also shows this to be a problem which extends around the country – not just London and the South East. House prices and rents may be lower outside London, but so are wages.

9 Shelter, The House Price Gap, February 2014, p2.

10 English Housing Survey, 2013–2014.

Figure 5: YouGov/Shelter survey of private renters who wish to buy a home¹¹

Question: Thinking about saving money towards a deposit to buy a home ...
Approximately how much, if anything, do you personally save during an average month?

	England	North East	North West	Yorkshire and the Humber	East Midlands	West Midlands	East of England	London	South East	South West
I/we don't save anything towards a home deposit	48%	45%	49%	42%	49%	55%	46%	45%	50%	51%
Less than £50	16%	18%	20%	16%	17%	18%	15%	10%	13%	17%
£50 to £100 per month	9%	13%	8%	8%	8%	8%	10%	10%	10%	11%
£101 to £200 per month	8%	7%	9%	12%	7%	7%	8%	10%	8%	4%
£201 to £400 per month	7%	4%	5%	12%	11%	5%	5%	10%	5%	6%
More than £400 per month	8%	12%	6%	4%	4%	5%	14%	11%	7%	8%
Prefer not to say	4%	1%	3%	6%	4%	1%	3%	5%	7%	3%

The benefits of home ownership

To Conservatives, the benefits of home ownership are so obvious that they barely need repeating. But, such has been the decline of ownership since 2003, it is worth repeating loud and clear why home ownership is such a beneficial thing. Home ownership genuinely creates a stake in your community, your neighbourhood and your country, it provides a sense of place and belonging and a real sense of pride. Extending home ownership extends something that was once the preserve of the rich to everybody in society. This is why it should remain a political priority today. But Conservatives need to address the question of how to broaden it as widely as possible.

The case was first made by Noel Skelton (no relation!) in the early part of the twentieth century. Skelton was part of the so-called ‘YMCA’, along with the likes of Harold Macmillan, Anthony Eden and Bob Boothby and pushed an idea of

¹¹ Source: YouGov survey of 3,792 private renters in England, July 2015, weighted, online. Base: 3,043 who know that they want to buy a home.

‘constructive conservatism’. Skelton declared that a ‘property owning democracy’ should be the Conservatives way of ridding their association with the rich and the landed gentry, but also to give the poorest a real stake in society.

Skelton said that the goal of the property owning democracy is:

“to give the wage earner property and status; to bridge the economic gulf set between Labour and Capital; to present a view of life in which private property... will be recognised as the essential vehicle for the moral and economic progress of the individual; these are the tasks which the opportunity, the problem, and its own principles alike call Conservatism to perform in the new era.”

This case was taken up by Harold Macmillan who, as Minister of Housing, in the 1951 government famously built more homes even than Nye Bevan – giving them both a place in the pantheon of great social reformers of the post-war period. The 1951 Conservative manifesto made the commitment to housing quite clear, when it said that:

“Housing is the first of the social services. It is also one of the keys to increased productivity. Work, family life, health and education are all undermined by crowded houses. Therefore, a Conservative and Unionist Government will give housing a priority second only to national defence.”

Eden, when succeeding as Prime Minister committed the Conservatives firmly to a programme of housebuilding and expanding home ownership, implicitly and explicitly suggesting that one could not exist without the other. In the 1950s, one of the great Conservative posters suggested that the Conservatives wanted a poor girl to be able to grow up with a home of her own. In 1955, a Conservative poster was able to boast: “As promised – A Million Houses. Vote Conservative.”

It was a message that struck a chord in the 1955 election and, with even more determination and fervour by Harold Macmillan, when he succeeded as Prime Minister following the debacle of Suez.

Margaret Thatcher ensured that housing was a central part of her radical offer post 1979, with the offer of a ‘Right to Buy’ your own council house being at the core of this. She made the case in typically passionate terms when she said described Right to Buy as “nothing less than a crusade to enfranchise the many in the economic life of the nation.”¹²

Both the coalition and the post 2015 majority Conservative government have continued this trend of making housing and home ownership a priority. The ‘Help To Buy’ scheme helped a number of first-time buyers to meet their dreams of home ownership, with 100,000 people finding a place on the housing ladder that would previously have been beyond them. And the vast majority of these have been outside of London and the South East, with the average price being £184,000.

The recent Budgets and Comprehensive Spending Review of 2015, meanwhile, saw a doubling of the affordable housing budget – with a huge new push on Starter Homes (homes for sale at 80% of the market price) and shared ownership, where buyers can purchase a share (e.g. 40%) of the property while paying rent on the remainder.

Starter Homes and the expansion of shared ownership will help many people across the country, as will the extension of Right to Buy to Housing Association properties that was a centrepiece of the Conservatives successful election manifesto earlier this year.

People on the National Living Wage should be able to aspire to own a home

But all of these initiatives, welcome though they are, still represent only a partial solution to the central problems discussed earlier. Clearly, if the mission of a property owning democracy is to be achieved, further, more ambitious programmes also need to be considered. Efforts now need to focus on the emerging large group of people on low incomes stuck in the private rented sector aspiring to own a home of their own.

Figure 6 shows that though Starter Homes will help people on middle incomes in many key cities the Conservatives need to reclaim ground in, they likely won’t be affordable to those on the National Living Wage in those areas. Indeed, Shelter

¹² Speech to 1986 party conference.

analysis found they were only affordable to families on the National Living Wage in 2% of the country.

Figure 6: Starter Home affordability in key areas where the Conservatives need to make electoral progress¹³

Will Starter Homes in this area be affordable to ... (● Yes ● No)

Local authority	Family on National Living Wage	Family on median wage (local)
Manchester	●	●
Newcastle upon Tyne	●	●
Sheffield	●	●
Leeds	●	●
Bristol	●	●
Oldham	●	●

Figure 7 meanwhile shows that shared ownership in practice tends to only be affordable or accessible to those on more middle incomes and above. This is for a number of reasons. In some cases it is because affording a deposit and a mortgage even on a 25% share is beyond many working people's reach, given how hard they find it to save (see above section) and wage pressures. In addition, lenders have been reticent about combining Help to Buy style equity loans on shared ownership. As importantly, though, the problem is one of *accessibility* to mortgages: those on low incomes often have fluctuating incomes – for instance those who are self-employed or on zero hours contracts – or have difficult credit histories. For these reasons, they are usually deemed ineligible for a mortgage by lenders.

¹³ Shelter: Starter Homes – will they be affordable?

Figure 7: Proportion of households unable to afford shared ownership, Starter Homes and Help to Buy¹⁴

Region	Starter Homes		Help to Buy	Shared Ownership (25% share)
	Median price	Lower quartile price		
England	80%	60%	80%	50%
South East	80%	70%	90%	50%
London	80%	Nearly 70%	80%	60%
East	80%	70%	80%	40%
South West	80%	70%	80%	50%
West Midlands	80%	80%	80%	50%
East Midlands	80%	70%	80%	50%
Yorkshire and Humber	Nearly 80%	60%	70%	40%
North West	80%	70%	80%	50%
North East	80%	Nearly 80%	80%	Nearly 60%

This does not mean a new generation of Starter Homes or shared ownership is unwelcome – they will help millions of people fulfil their aspirations to own a home. They are also far more than any Labour government committed to. But there is instead a clear case for building on this progress and making renewed efforts to those it has thus far been unable to help.

The introduction of a National Living Wage, which at Renewal we campaigned for and strongly supported, is a strong first step to making a higher skill, high wage economy a reality. The creation of a genuine ‘property owning democracy’ must be an important part of this process and this means that there should be

¹⁴ Shelter, forthcoming analysis 2016, based on earnings quartiles. Based on the same methodology as March 2016 report, ‘Can London private renters access the latest home ownership schemes?’ http://england.shelter.org.uk/_data/assets/pdf_file/0005/1240385/2016_03_03_Can_London_private_renters_access_the_latest_home_ownership_schemes.pdf

a route for those earning on or around the National Living Wage into home ownership. The alternative is an entrenching of economic divisions and reduction of opportunities.

Equally, the government has shown real ambition in seeking to tackle long-term economic divides, including the ‘North-South divide’ that has hobbled the UK for generations. We believe that a Northern Powerhouse should be one in which all people have a stake and in which home ownership becomes a realistic possibility for everybody in society.

OPTIONS FOR REFORM: THE CASE FOR A ROLE FOR THE STATE IN BUILDING NEW HOMES AFFORDABLE TO THOSE ON LOW INCOMES

As set out above, the shortage of housing means that people on low and even middle incomes are further away from the housing ladder than ever.

This chapter considers the options open to government to address this problem.

The market alone will never help everyone

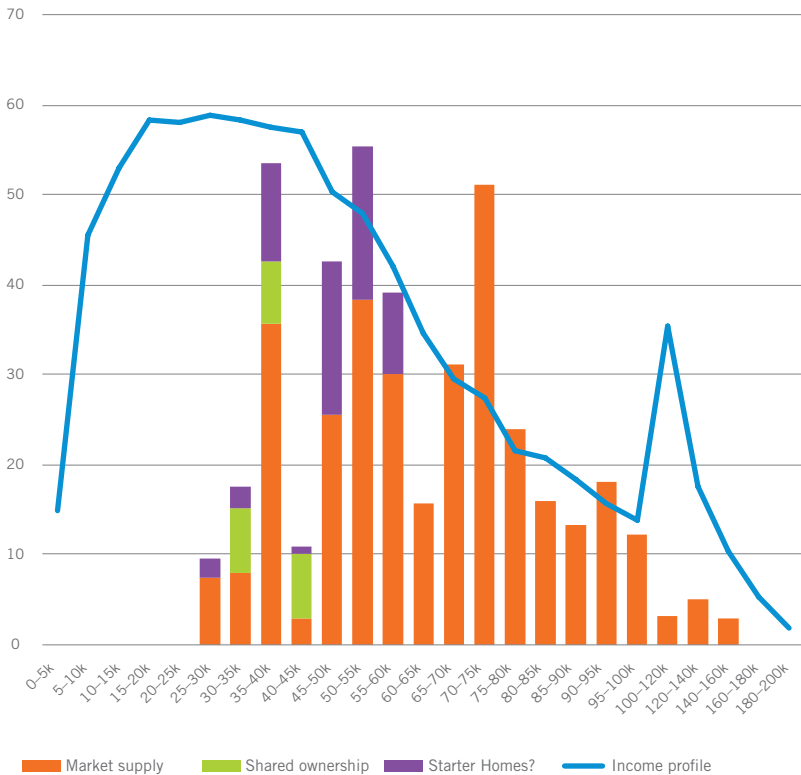
One option is to create space for the private housebuilding market to meet demand – for example through full planning liberalisation.

The government – in this Parliament and the last – have already taken significant steps in this direction with an impressive programme of planning reform. This has contributed to a rise in the number of homes built after a significant decline at the end of the last Labour government. It will also undoubtedly contribute to slowing the pace of house price inflation, allowing people on middle incomes in particular to catch up.

However, it is the argument of this paper that the market alone left to its own devices will never deliver sufficient numbers to bring prices down sufficiently to help low income households.

Analysis by Savills (Figure 8) of a typical local housing market bears this out. It shows that the government's efforts to increase the private supply of homes will help many people on the income scale – but it will struggle to 'trickle down' to those on low incomes.

Figure 8: Savills analysis of who new homes will help (future supply profile, public and private), 2018 onwards, in typical local housing market¹⁵



It could be argued that this shows the need to go further on planning reform and establish a purely ‘free market’ in housing – perhaps by abolishing the planning system altogether. The logic of this is that the planning system places artificial constraints on the marketplace, preventing supply from being in ‘equilibrium’ with demand. After all, in a normal functioning market place if the price of something rises then the supply of it is increased too. Proponents of a ‘market utopian’ view argue that abolishing or significantly liberalising the

¹⁵ Analysis based on 2018–2021 Affordable Housing Programme. Graph from Savills seminar presentation, 16.11.15. This is based on a Savills case study of Chelmsford. Savills note that the ‘left behind’ group will be smaller in some areas (e.g. Bradford) but much larger in others (e.g. Camden).

planning system would allow supply of homes to fully meet demand, bringing down prices significantly so that everyone can afford a home.

However, this argument does not and cannot ever fully apply to housing. House prices are high because the price of land is high. However, the price of land will likely always be artificially high – because it is inherently scarce. Thus there will always be a need for a planning system to mediate the different claims on what is a finite resource. This system could be improved but any attempts to get rid of it will always face a backlash that would need to be forcibly subdued.

This is what Karl Polanyi meant when he referred to land as a “fictitious commodity”, and what Mark Twain meant when he quipped “buy land, they’re not making it any more”. In many ways Polanyi foresaw that attempts to completely commodify land would end in failure; abolishing planning will always be met by a ‘countervailing force’ of people in their local community who want a say over building in their community.¹⁶

In addition, it is unlikely that volume housebuilders will ever build enough to ensure prices come down fully – many follow their rational self-interest and hold out on supply to keep prices high.

Finally, the Prime Minister has also made clear that the existing Green Belt will be protected by this Government.

Thus, it is unlikely that enough private market homes will ever be built to bring prices down low enough to reach those on low incomes. There will always be *some* constraint on the market. Thus while building more private market homes will help many people on middle incomes, **there will almost certainly always be a group of people on lower incomes who need some form of government intervention to help them with their housing costs.**

Three options for interventions to help people on low incomes

If the market alone will not trickle down to people on low incomes, there are three remaining options for helping those on low incomes afford housing:

1. **Housing Benefit.** This, however, is expensive for the taxpayer and represents a sticking plaster solution to the issue and a transfer from the taxpayer to private landlords. Britain already spends £23bn a year on housing benefit, and this is unsustainable at a time of high national debt.

¹⁶ Karl Polanyi, *The Great Transformation* (1944).

2. Rent control. This is ineffective and illiberal. Research by academics at Cambridge University for Shelter recently found that a return to crude rent controls of the 1970s would remove incentives for landlords to invest in their properties and lead to poorer quality homes, especially for those on low incomes.¹⁷
3. A new generation of low-rent homes with a fast track to home ownership. This represents the most realistic way of spreading home ownership more quickly amongst low income voters, as well as ensuring that people have the dignity of a decent home. It is also the only option among these three likely to create a Conservative voter.

The next part of this paper maps out what a new generation of these homes might look like.

17 'Shelter warns blunt rent cap could harm tenants', The Guardian, July 2015.

THE SOLUTION: A NEW GENERATION OF LIVING RENT, 'RENT TO BUY' HOMES

Introducing the idea of 'Rent to Buy' homes

Conservatives should form and invest a new product of affordable housing aimed at those on low incomes: what this paper calls 'Rent to Buy'. This product would have four main components:

1. **Low-rents.** Rents would be set at an affordable level, defined as no more than 1/3rd of the average low income in the area. This will enable people to save more money towards a deposit.
2. **5 to 10 year tenancies as a minimum.** This would offer families the security and stability that the private rented sector currently doesn't, but still encourage mobility and efficiency in the use of stock. Tenancies can be reviewed depending on circumstance but the assumption is that the tenant will stay in their home if they wish to.
3. **A pathway towards home ownership.** After two years a tenant would have the option to buy their home. Discounts akin in value to Right to Buy would become available for them to buy the property, which would be facilitated through an extension of Help to Buy style equity loans. This delivery mechanism will provide a stable revenue stream that will ensure any homes sold can be replaced. Tenants would not be compelled to buy their home but would have the option to.
4. **A flexible allocation policy** that allows local authorities and Housing Associations to use these homes for working people on low incomes.

The recent Comprehensive Spending Review funded a similar Rent to Buy product, though this was based on 80% of market rents, funding was limited and allocations were unclear. This paper contends that this model should be scaled up and rents should be reduced to a Living Rent affordable to people on low incomes.

The benefits of Rent to Buy homes

Helping people save

As the previous section of this paper makes clear, one of the biggest barriers to greater low income home ownership is the inability of millions of low income private renters to save anything after paying their housing costs each month. Thus innovative saving products like the Chancellor's 'Help to Buy ISA' simply struggle to be effective for many private renters on low incomes.

As above, the rents on this product should be based on the average low income in each area. If we model this area-by-area we can see (in Figure 9) that families currently stuck in the private rented sector will make significant savings under this model – that they will then be able to put towards buying a home. Figure 9 shows the difference between market rent and what a Conservative 'Living Rent' might look like in different corners of the country – and thus how much the average family could save.

Figure 9: Indicative average savings from a 'Rent to Buy' model vs existing private rent¹⁸

Area	Region	Monthly 'Conservative Living Rent'	Current average monthly private rent (2 bed)	Difference between a 'Conservative Living Rent' and average private rent, pcm
Bristol, City of UA	SW	£467	£900	£433
Camden	L	£556	£2,080	£1,524
County Durham UA	NE	£427	£475	£48
Enfield	L	£462	£1,250	£788
Leeds	YH	£397	£450	£53
Manchester	NW	£397	£695	£298

18 Analysis based on VOA Private Rental Market Statistics data July 2016 (2 bed) v.s Living Rent, based on 1/3 of the 30th earnings percentile in ONS ASHE Table 8.7a – all earners. Figures for Conservative Living Rent based on analysis by Shelter of what these rents would look like in every area of the country.

19 This uses council rent as a rough proxy – a real Living Rent is likely to be more flexible area-by-area than council rent, but requires data modelling beyond the scope of this paper.

Area	Region	Monthly 'Conservative Living Rent'	Current average monthly private rent (2 bed)	Difference between a 'Conservative Living Rent' and average private rent, pcm
Newcastle upon Tyne	NE	£393	£550	£157
Oldham	NW	£398	£475	£77
Sheffield	YH	£388	£550	£162

Public support

In 2014 Shelter polled the general public on their attitudes to new homes, as well as conducting qualitative research such as focus groups. They found that of all the various ‘retail offers’ polled, the highest amount of support went to ‘Rent to Buy’ style homes – homes that were seen to offer a stepping stone to ownership for those willing to work hard and save. This was seen as turning the concept of ‘dead money’ embodied in existing private rents into something more positive, with a pathway for those willing to act responsibly and save what they can. This idea of the government meeting the aspirations of hardworking people ‘half way’ received strong support.²⁰

Avoiding the past mistakes of social housing

Even if he hadn’t gone on to be a great post-war Prime Minister, Harold Macmillan’s legacy would have been substantially secured by his success in building a record number of houses under Churchill’s premiership. He did this with remarkable speed and ensured that many families who were still living in slum accommodation did eventually have a home of their own.

It’s worth remembering, however, that the story of housebuilding in the immediate post-war decades wasn’t always one of success. Some of the houses built were of poor quality and quickly developed issues around damp and other internal problems. Others were very poorly designed and, in cases such as the Byker Wall near Newcastle, replaced vibrant communities with Kafkaesque monstrosities. Some of the worst examples of post war social house building built estates that contributed to high criminality and extreme levels of social isolation.

²⁰ Shelter blog, ‘Six popular housebuilding policies’, 2014.

In a rush to meet housing need, it's essential that new homes aimed at those on low incomes don't replicate the problems of the social houses of the post-war period. They should be hallmarked by high-quality design, where possible with gardens and communal areas, and should represent places where people actually want to live. Good practice by Housing Associations should be considered and the still tremendous social housing built by the likes of the Peabody Trust at the turn of the century and before should be regarded to be as much of a model for a new generation of housing as many of the estates built in the post-war period.

It is also important that allocation policies for these new homes do not become too restrictive. Over-restrictive allocation policies helped ensure social housing only became the preserve of the very neediest and most vulnerable. While vulnerable and homeless families should have some access to social housing, it is also important that local authorities or Housing Associations have the flexibility to also be able to house working people on low incomes in these new Rent to Buy homes.

How many Rent to Buy homes are needed?

The government should be aiming these new homes at the same demographic as those traditionally housed by social housing. Analysis by Shelter suggests that in order to meet need around 30% of the 250,000 new homes we need each year need to be affordable homes at low rents.²¹

This means that the Conservatives should aim to deliver 75,000 new Rent to Buy homes a year in order to fully meet demand. This could give millions of priced out low income private renters a pathway towards home ownership that would never otherwise be available.

21 Shelter, 'In the mix: the need for a diverse mix of new homes', 2014.

How might this new generation of homes be delivered?

Directly funded through the Affordable Homes Programme

If we assume subsidy levels for Rent to Buy homes will be roughly the same as a new social rented home, this means each home will require around £60,000 of grant money. Building 75,000 new Rent to Buy homes would therefore cost £4.5bn a year.

This could be delivered through greater taxes on Buy to Let landlords. The Government has already signalled its willingness to tackle the excesses of Buy to Let and the generous tax breaks many landlords enjoy. Going further would have the benefit of further levelling the currently uneven playing field between Buy to Let landlords and aspiring first time buyers.

A scaling up of Rent to Buy could also be partly funded through ring-fencing the receipts from the Chancellor's recent 3% rise in Stamp Duty on Buy to Let landlords.

This money would then be channelled to housing associations on the strict instructions to build these homes.

Through the planning system

Changes in the Housing and Planning Bill will place a duty on local authorities to prioritise Starter Homes in their 'Section 106' deals – affordable housing obligations – with developers when they grant planning permission for a site. This legislation and regulation could be extended to also include Rent to Buy homes, at the local authorities discretion, so that developers can play a role in delivering these new homes. This was recently proposed as an amendment to the Housing and Planning Bill by Andrew Lansley, Sir George Young (former Housing Minister) and Gary Streeter MP.

In partnership with the private sector

There are a number of private sector institutions who wish to build more affordable homes at low rents. This is because these homes provide a consistent and steady yield for them across a number of years. L&G are one such institution. Under this model, an institutional investor would fund the construction of the site then lease the home to a local authority or housing association for a long

period of time. Under the Rent to Buy model, government would have to fully compensate the investor for any discount on the home offered to tenants should they decide to buy the home once they are able to.

In addition, this model would require the government removing barriers to such investment, and ensuring a greater number of sites are available at modest prices for institutional investors – for example through granting local authorities greater powers to buy up land at more modest prices, or giving them access to public land at lower prices.

Through devolution deals – and reconsidering local authority borrowing caps

This government has the potential to leave a fundamentally positive legacy in terms of narrowing the decades old North-South divide and ensuring that, for the first time in decades, the country has the housing that it, and some of its poorest citizens, badly need. In doing so, they'd be making a substantial step towards ensuring that all citizens became fundamentally economically enfranchised and are able to play an active part in their communities.

Pushing this agenda from Whitehall is no longer the solution. The concept of a civil servant in the Treasury or the Department of Communities and Local Government pinpointing on a map of England where social housing should go isn't in line with the spirit of the age either in the UK or across Western Europe. Instead, measures to tackle a housing crisis should be taken within this devolving zeitgeist and involving as broad a range of actors as possible, including housing associations, developers and local authorities.

The centrepiece of the Northern Powerhouse concept, is, rightly, that each city or city-region should have a directly-elected Mayor. This matters for a variety of reasons, such as providing democratic legitimacy and having a big figure with both the influence and the democratic mandate to bat for the city both in Whitehall and abroad. Globally, the most successful cities have been those with dynamic, democratically elected civic leadership, further underlining the importance of directly elected Mayors to the model.

Directly-elected mayors will have the ability to tackle head-on some of the issues that make a fundamental difference to the potential prosperity of the city-region, particularly around transport, business generation and infrastructure. Housing should be a key element of a Mayor's list of priorities and Mayors should

be given the power to take whatever action they think necessary to meet a city's housing needs. In some cases, this is likely to mean building a new generation of low-rent social housing, providing a fast-track to home ownership for citizens of the city.

How this is done should, of course, be up to the elected Mayor. In the case of housing, as in much else, the man in Whitehall no longer knows best. The whole point of devolution and the Northern Powerhouse is to allow Mayors and local people to show innovation and bold ideas as they look to provide a new generation of housing for their cities.

As part of devolution deals, city and local government should have the ability to borrow in order to meet what they perceive their housing need to be. At a time of necessary fiscal retrenchment, it's clear that major housebuilding is not going to pay for itself and that local authorities shouldn't be overly financially restricted when looking to meet housing needs.

CONCLUSION

Housing is one of the defining challenges of this political generation. The housing crisis is an acute driver of inequality and disengagement, without action now, this inequality between the home-owning haves and the non home-owning have-nots risks becoming deeply entrenched. For many young people and many of the low-paid, a place on the housing ladder is no more than a pipedream.

Today's politicians can not afford to let the social housing waiting list continue growing or leave a considerable proportion of the population permanently shut out from the housing market. Nor can they afford to allow people to be stuck in poor quality private rented accommodation when the state can, and should, act to improve people's dignity and life chances. Political greats from across the spectrum, from Macmillan to Bevan, show that with the political will there is a political way to tackle the housing crisis that risks cutting too many people adrift. To do this, there needs to be a considerable increase in the housing stock to meet housing need. Conservatives should also look at this as an opportunity to extend home ownership amongst those who see owning their own home as a near impossibility at the moment.

Politicians rightly trumpet the importance of home ownership, but they should be careful that home ownership doesn't become the hallmark of a divided society. It's clear that more can, and should, be done to bring the undoubted benefits of home-ownership to everybody. A free market utopia, where planning controls are torn asunder, is not going to achieve this. The market has failed to deliver the houses that the country needs and this failing is felt most acutely by the working poor.

The Living Wage and the National Living Wage are crucial public policy instruments to help the low-paid, which Renewal has been one of the most consistent voices in campaigning for. The goal of the Living Wage policy is clear – to improve the quality of life for workers and their families. But if the benefits of increased wages are merely sucked up in high rent bills for poor quality rented accommodation then the benefits of increased wages risk being limited. Those who benefit from the Living Wage are also those who lose out the most from the housing crisis. It should be a declared government policy that home ownership should be spread throughout society.

Government can play a big role in facilitating a home owning democracy and ensuring that housing stock meets the needs of the people. This is, of course, not going to happen overnight. But by facilitating the building of good quality rented accommodation, government, through Housing Associations, directly elected Mayors and other bodies, can ensure that the low-paid are not stuck in poor quality private-rented accommodation, as well as giving millions of people the chance of home ownership.

The proposals we make in this paper could mark the foundation of a democratisation of home ownership in the UK, helping to reverse the marked decline in home ownership in recent decades. They represent what would be the biggest house building revolution since the days of Supermac and the biggest extension of home ownership since Right to Buy, with the added proviso that all housing stock sold off MUST be replaced. They will also dramatically reduce the taxpayer subsidy to rogue landlords through Housing Benefit and ensure that the most vulnerable don't have to suffer the indignity of poor quality housing. Like the Living Wage, this policy will help ensure that hard work is genuinely rewarded, as well as making sure that home ownership again becomes the preserve of the many.

Theresa May has an opportunity to reshape politics for a generation and position the Conservatives firmly as the party of workers and the low-paid. She has made this point firmly when talking about the need to build an economy and society that works for everybody and measures to tackle inequality, build a new industrial strategy and regenerate the North are vital parts of this. The development of a whole new generation of low-rent housing, lifting hundreds of thousands onto the housing ladder would be a fundamental part of creating a fairer society that works for all.

