Co-Living: A Solution to the Housing Crisis?

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This report has been commissioned by Barclays. The objective of the study is to explore the extent to which co-living could provide a viable route towards homeownership, and to explore the potential demand for a “to buy” co-living product.

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Scott Corfe joined the SMF as Chief Economist in 2017. Before joining, he was Head of Macroeconomics and a Director at the economics consultancy Cebr, where he led much of the consultancy’s thought leadership and public policy research. His expert insights are frequently sought after in publications including the Financial Times, the Sunday Times, the Guardian and the Daily Telegraph. Scott has appeared on BBC News, Sky News, Radio 4 and a range of other broadcast media.

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EXECUTIVE SUMMARY

This study explores the role that **co-living** could play in increasing homeownership for first-time-buyers in the United Kingdom – particularly among those in younger age groups living in urban areas. Co-living refers to housing models where individuals have a private housing space, but also have access to a range of communal facilities such as shared living areas, dining spaces, gyms, gardens and cinema rooms. The private housing space would be a self-contained flat or house, or, as has recently been the case in co-living developments, a micro-studio flat or room. The types of communal facilities on offer could also vary drastically, catering for a range of budgets. For example, lower-priced co-living developments may not contain relatively luxury facilities such as cinema rooms.

One of the key distinguishing aspects of co-living is its heavy emphasis on facilitating social interaction and supporting the development of active communities in which individuals engage with their neighbours on a regular basis.

Recent years have seen the emergence of small rooms/studios in co-living spaces that can be rented in London and other global cities, such as New York, San Francisco and Beijing, through organisations such as The Collective, Roam and WeLive.

Other co-living developments, for example Munksoegaard in Denmark, offer larger private housing space but relatively minimal or basic communal facilities.

This report identifies a substantial issue of housing unaffordability in the UK, which has a range of negative socioeconomic implications:

- Since the start of the century, the average house price in the UK has almost tripled, rising from £102,000 in 2000 to £283,000 in 2018. The ratio of house prices to average employee salaries (a key measure of housing affordability) has increased dramatically, rising from 6.3 to 10.5 over the same time period.

- **Homeownership rates have fallen sharply as a result of high house prices, particularly among the young.** While in 2004/05 a majority (58.6%) of those aged 25-34 were homeowners, by 2017/18 just over a third (37.6%) were. For those aged 16-24, homeownership rates declined from 24.0% to 12.3% over the same period.

- Declining homeownership has its costs:
    - **Negative impacts on wealth and savings -** According to the ONS Wealth and Assets Survey, housing is a key source of wealth in the UK, accounting for just over a third (35%) of all the wealth held by UK households. Furthermore, homeownership is a powerful way of encouraging saving and wealth accumulation, with mortgages essentially forcing individuals to make regular capital payments over time
    - **Increased levels of wealth inequality within and between generations –** as those locked out of the property ladder fall behind in terms of capital accumulation.
    - **Negative impacts on wellbeing -** data collected by the Office for National Statistics (ONS) on wellbeing suggest that homeownership is associated with better wellbeing outcomes
    - **Failing to meet individuals' aspirations -** Survey findings, commissioned from Opinium to support this research, show that an overwhelming majority

(82%) of under 35s in the UK that do not own a home wish to be homeowners., The reality is that homeownership remains a key aspiration and lifestyle goal for most individuals in the UK but nevertheless, renting has its potential advantages – such as making it easier for individuals to relocate (e.g. to a new job), and reducing risks associated with falling house prices and negative equity

Recent years have seen a range of policy measures and innovations in the property market aimed at reversing the decline in homeownership. This includes the government's Help to Buy scheme and reforms to stamp duty aimed at making homeownership more accessible by reducing the upfront costs of house purchase. Shared ownership housing, and smaller homes (such as those provided by "Pocket Living") also offer more affordable routes onto the property ladder.

These innovations alone cannot solve the unaffordability issues in the UK housing market and therefore a multi-pronged approach is required. There is scope for further innovations to provide more affordable housing and one such innovation could be the development of units available to buy in co-living spaces.

"To buy" co-living spaces could bring with them a number of benefits:

- **Significantly lower purchase costs.** By compromising on space, individuals would be able to acquire property in a relatively expensive urban area such as London, at a significantly lower purchase cost than a conventional home. Communal spaces, such as lounge areas and shared laundry facilities, will reduce individuals' private space requirements.

- **Enabling individuals to get on the property ladder (and build up equity) at a lower age and for longer.** By offering a lower entry price onto the housing ladder, co-living could increase homeownership rates among younger age groups. Individuals would thus spend less income on rental payments over the course of their lives. If co-living units appreciate in value over time, they can also help individuals to build up additional housing equity.

- **Financial savings for households through the "sharing economy"**. A co-living space may be conducive to the development of a broader "sharing economy", where individuals rent/borrow rather than buy items such as cars, power tools, bicycles, cooking equipment and crockery. This could translate into significant financial savings for individuals.

- **Easing pressures elsewhere in the housing market.** Co-living could lead to a more efficient use of the UK's housing stock. For example, co-living developments could potentially curb demand for social housing. Co-living can also provide a compelling housing solution for individuals without children and free up larger, family-sized homes for those with children who require more space.

- **Fostering communities and tackling loneliness.** Recent research by the Office for National Statistics suggests younger individuals feel more lonely than those in older age groups[1], contrary to common perception that loneliness is predominantly a problem for the elderly. With co-living, interactions in communal spaces - such as in shared dining facilities, resident events, gym classes and/or lounge areas - can foster friendships, conversations, entertainment and ultimately community spirit.

We believe that several benefits of co-living – tackling loneliness, offering high quality communal services and encouraging sharing - make this a unique proposition among other affordable housing models such as shared ownership and "pocket living", therefore making co-living a compelling alternative or addition.

The Opinium survey of under 40s living in urban areas, commissioned as part of this research, suggests demand for "to buy" co-living spaces exists:

- Across the UK, 53% of survey respondents were willing to consider buying a co-living product, with 42% not willing to consider it (among those that do not currently own a home).

- The proportion of under 40s in urban areas willing to consider a consider a "to buy" co-living product was particularly high in London, with over 60% willing to consider such a product – likely to be a reflection of the difficulties associated with purchasing a "conventional" property in the capital.

- In terms of the communal facilities that individuals would be most interested in, in a co-living space, survey respondents under the age of 40 expressed the most interest in free private car parking (34% interested), followed by a gym for residents (30%), a swimming pool (26%), a kitchen/dining area (24%) and communal gardens (20%).

- In terms of the perceived advantages of co-living, the most commonly cited advantage among under-40s was lower housing costs (47%), followed by getting a first foot on the housing ladder (27%) and the ability to meet new people (21%).

- On average, to purchase a micro-studio flat om a co-living space, individuals would be willing to pay up to 60% of the price of a one bedroom flat in an area.

Our study outlines a number of challenges associated with creating affordable "to buy" co-living spaces. Some of these may require policy interventions as well as innovative thinking from property developers. This includes:

- **Relatively high service costs.** Depending on the breadth and quality of communal services, service charges in a co-living environment could be substantial – of a similar order of magnitude to mortgage costs or more. As such, realising the twin objectives of increased housing affordability and desirable, high quality communal living requires a challenging balancing act.

  However, there may be scope to share some of the costs associated with communal facilities with the wider public or with government; for example gyms

[1] https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/articles/lonelinesswhatcharacteristicsandcircumstancesareassociatedwithfeelinglonely/2018-04-10

could be made available for non-residents (for a cost) during certain times of day. Additionally or alternatively, there is scope for diversity of co-living offers, with budget and premium developments offering different levels of communal facilities. These models could help reduce service charges associated with maintenance – providing a more affordable proposition.

- **Affordable housing and minimum space requirements –** the viability of co-living developments could be constrained by affordable housing and minimum space requirements. Viability may thus be contingent on planning reforms.

- **Land space required to create viable developments**. At a roundtable discussion hosted as part of this research, which several property developers attended, there was discussion of the extent to which large land requirements for co-living developments could limit interest in constructing co-living spaces. However, some within the group said that they would consider such a housing model, as part of "campus"-style developments.

- **Financing.** Uncertainties around the value of co-living micro-studios and developments could leave developer finance and mortgage lending uncertain.

  Creating a functioning co-living financing model (for developers and prospective buyers) might require an organisation to provide an initial **proof of concept,** demonstrating that co-living can work as a viable model of homeownership for certain segments of society such as young professionals. There might be a role for government in providing or supporting this initial proof of concept development – for example, by releasing unused government land or buildings to support the development of co-living spaces.

- **Unknown liquidity.** Creating a liquid market where it is easy to buy and sell co-living spaces will be crucial if co-living is to be a success. It is important that this type of housing avoids the lack of liquidity that has plagued other niche types of housing, such as retirement housing.

- **Bad neighbours** and their impact on property values. In our survey research as part of this study, we asked under 40s living in urban areas about their greatest concerns with respect to buying a studio in a co-living space. Over half (52%) stated bad neighbours as a concern.

Unlike other types of housing, the value of co-living spaces would potentially be much more closely tied to the nature of one's neighbours, how they behave and the extent to which they look after or abuse communal facilities. Managers of co-living spaces would require different skills to managers of traditional apartment blocks, including a strong ability to manage differences and issues of conflict between neighbours.

CHAPTER 1: INTRODUCTION

It is widely agreed that the UK's housing market is currently not fit for purpose. High house prices, which have increased far more than average salaries in recent decades, have contributed to a situation where homeownership rates have declined substantially – particularly among the young. In cities such as London, high rental costs in the private sector mean that even this form of housing tenure is hard to afford for a considerable proportion of the population.

Numerous efforts have been made – by government, charities and innovators in the private sector – to provide solutions to this "housing crisis". Shared ownership, Help to Buy and smaller sized homes (such as those provided by "Pocket Living") all aim to make homeownership more accessible to those that cannot purchase through conventional means. But the persistence of high housing costs, and the continued difficulties in getting on the property ladder, highlight the need to think innovatively about what more can be done.

This report explores the extent to which "co-living" might provide a solution to the problem of housing unaffordability in the UK, particularly in cities such as London. Co-living refers to housing models where individuals have a private housing space, but also have access to a range of communal facilities such as shared dining spaces, gyms, gardens and cinema rooms. The private housing space could be a self-contained flat or house, or, as has recently been the case in co-living developments, a small studio flat or room. Recent years have seen the emergence of small co-living spaces with a wide range of communal facilities that can be rented in London and other global cities – through organisations such as The Collective, Roam and WeLive.

In this report we are interested in the extent to which a "to buy" co-living product could provide a more affordable form of homeownership in the UK. Furthermore, we are interested in exploring some of the other potential benefits of co-living – such as the extent to which it could tackle loneliness, and contribute towards more environmentally friendly living.

In exploring this issue we recognise that tackling the UK's housing crisis will require multiple measures. There is unlikely to be a "one size fits all" solution to the problem of housing unaffordability, particularly given varying housing requirements as well as the underlying politics and economics of housing in different regions. Co-living could be part of a multi-pronged set of new measures aimed at increasing homeownership rates in the UK. Furthermore, there is scope for wide variation in co-living offers themselves, such as in terms of the types of communal spaces provided and the size of individual housing units.

The structure of this report is as follows:

- Chapter 2 provides an overview of recent trends in house prices and homeownership in the UK, and considers their implications.
- Chapter 3 provides an overview of current measures aimed at making homeownership more affordable.
- Chapter 4 explores the role that co-living could play in providing affordable housing.
- Chapter 5 explores the potential challenges associated with expanding co-living in the UK.
- Chapter 6 draws conclusions from the preceding analysis.

CHAPTER 2: MOTIVATIONS FOR THE STUDY: THE DECLINE IN HOMEOWNERSHIP AND WHY IT MATTERS

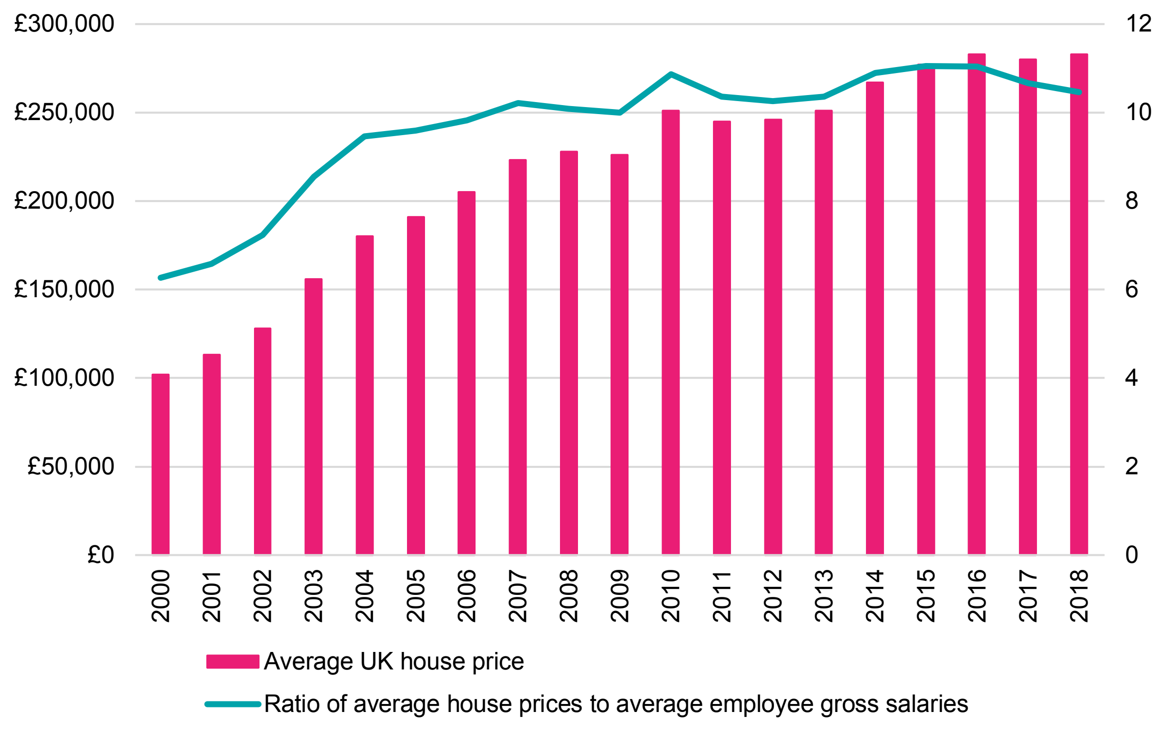
This chapter provides a brief overview of the underlying problem that this study is looking to address – the increased difficulty that individuals, particularly the young, face in getting on the property ladder and becoming homeowners. It thus sets the context for this study.

In addition to providing an overview of recent trends, we also provide an overview of the socioeconomic issues associated with declining rates of homeownership. That is to say, we explain why policymakers *should care* about the fact that homeownership rates have declined significantly in the UK.

Trends in housing affordability and homeownership

A quick glance of the data on house prices, housing costs and housing affordability in the UK highlights the extent to which unaffordability has become a problem in recent years. Since the start of the century, the average house price in the UK has almost tripled, rising from £102,000 in 2000 to £283,000 in 2018. The ratio of house prices to average employee salaries (a key measure of housing affordability) has increased dramatically, rising from 6.3 to 10.5 over the same time period.

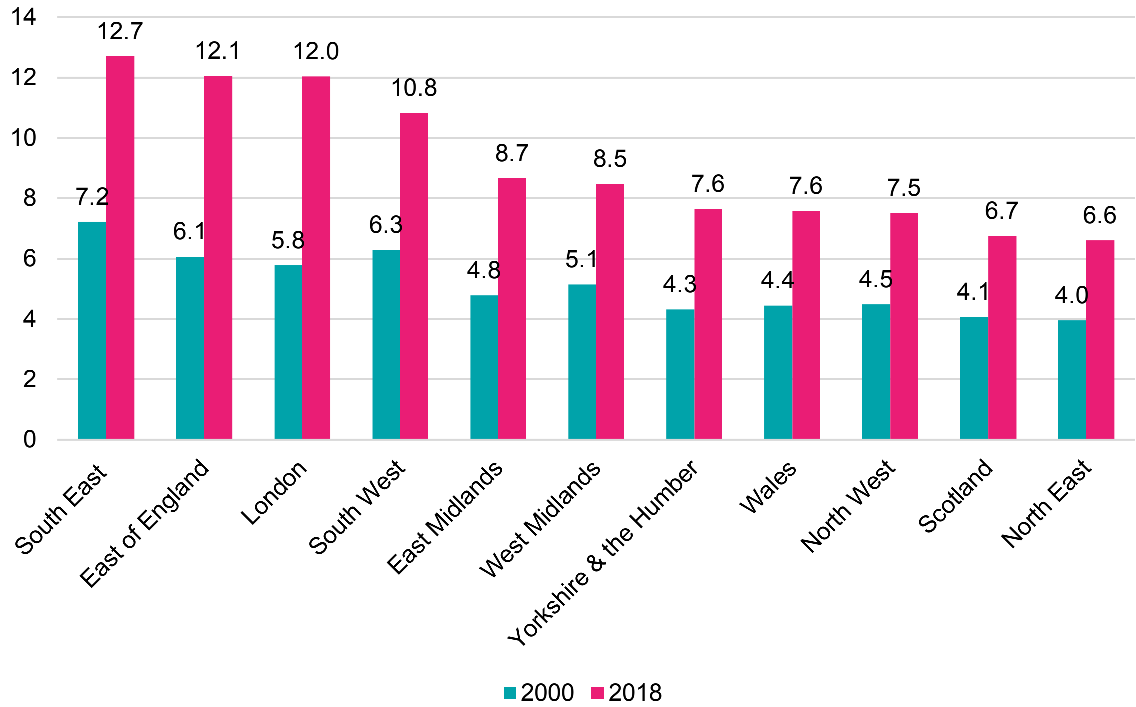
Figure 1: Mean UK house price (left-hand axis) and ratio or mean house prices to mean employee gross salaries (right-hand axis)



Source: ONS house price index, ONS average weekly earnings dataset

The housing affordability crisis is *particularly* acute in London, the East and the South East of England, where mean house prices stood at more than 12 times mean employee salaries in 2017. However, average house prices stand at levels that could be deemed unaffordable across Britain; there is no region where the mean house price to employee income ratio is less than 4.5 – the Financial Conduct Authority's loan-to-income "flow limit". The FCA expects no more than 15% of mortgages from lenders to be above this limit, meaning that it would be difficult for an individual on an average salary to acquire the mortgage necessary to buy a typical home. As Figure 2 below shows, the ratio of house prices to average incomes has increased drastically across the country since the turn of the century– particularly in London.

Figure 2: Mean house price to mean employee gross salary ratio, by region, 2000 and 2017

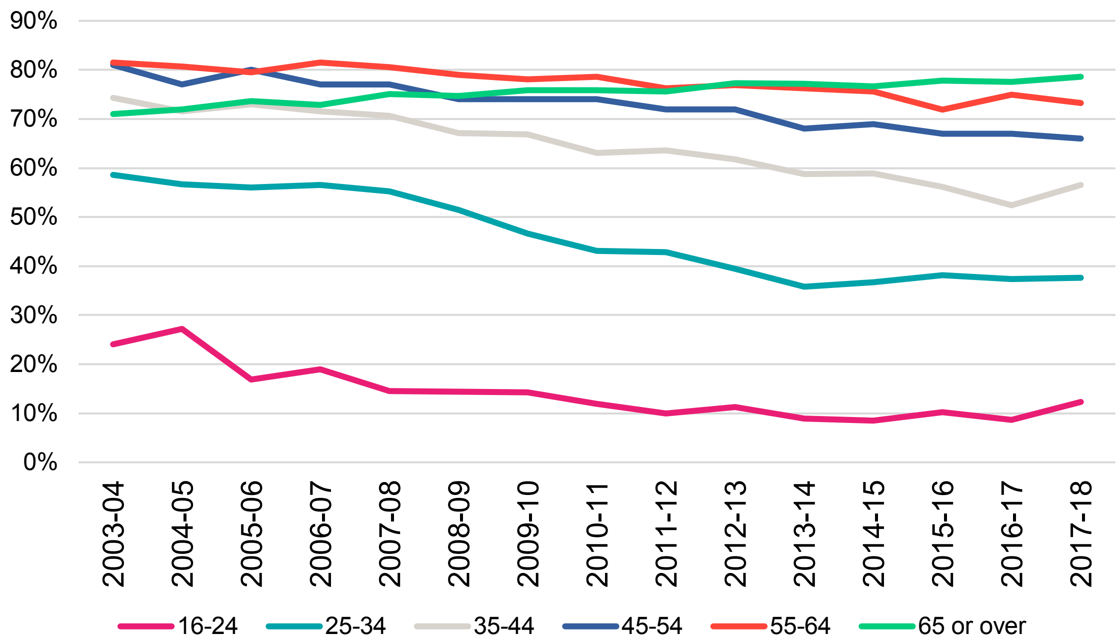


Source: ONS house price index, Annual Survey of Hours and Earnings (workplace-based data)

In addition to the challenge of acquiring a mortgage, given limitations on loan-to-income multiples, sizeable deposits required to secure a mortgage (as a result of high house prices) have also contributed to the problem of unaffordability.

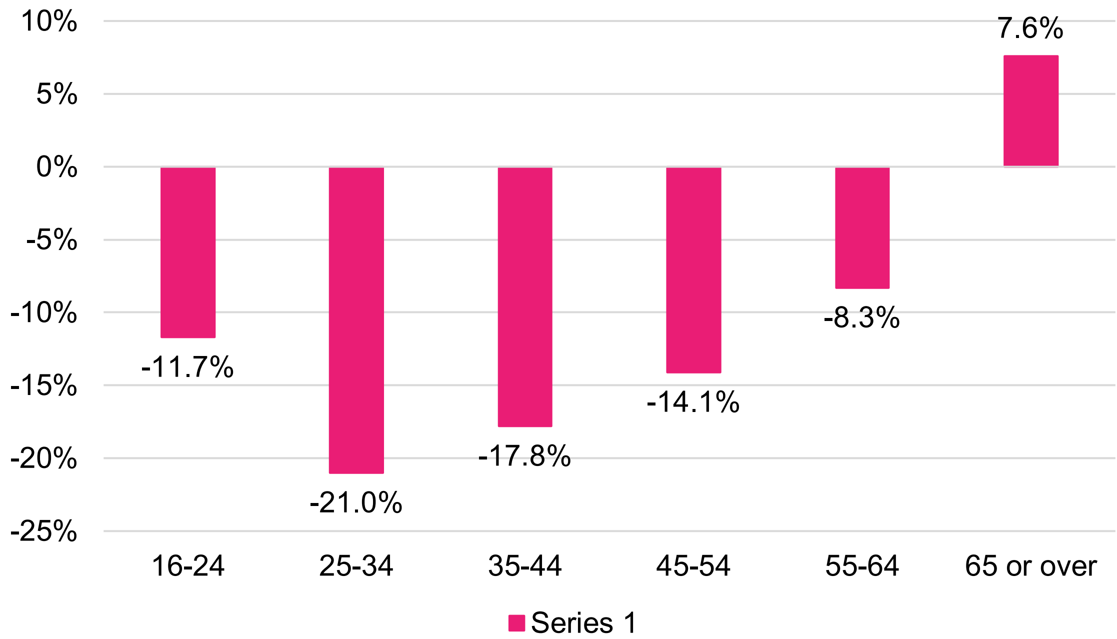
As a result of increased levels of unaffordability, homeownership has declined significantly. Data from the English Housing Survey, graphed on the next page, show that homeownership rates have declined across all age groups, except for the over 65s, since the early 2000s. The decline in homeownership has been particularly acute among those aged 25-34, where homeownership rates have declined by more than 20 percentage points. While in 2004/05 a majority (58.6%) of those aged 25-34 were homeowners, by 2017/18 just over a third (37.6%) were. For those aged 16-24, homeownership rates declined from 24.0% to 12.3% over the same period.

Figure 3: Homeownership rate, by age of household reference person



Source: English Housing Survey

Figure 4: Percentage point decline in homeownership rate, 2004/05-2017/18



Source: English Housing Survey

Implications

The decline in homeownership in the UK has significant implications – for the economy, for household wealth and for social mobility.

Negative impacts on wealth and savings

According to the ONS Wealth and Assets Survey, housing is a key source of wealth in the UK, accounting for just over a third (35%) of all the wealth held by UK households[2]. Furthermore, homeownership is a powerful way of encouraging saving and wealth accumulation, with mortgages essentially forcing individuals to make regular capital payments over time. The inability of individuals to become homeowners could thus have a significant negative impact on their ability to accumulate wealth, particularly if strong increases in house prices persist over the coming decades.

As the SMF has recently argued in a report on the "poverty premium"[3], it is conceivable that those trapped in the private rental sector, due to an inability to become a homeowner, may find themselves facing substantially higher housing costs over the course of their lives. For example, this might arise due to the fact that homeownership costs fall significantly once a mortgage is paid off, while average rents for a property tend to increase over time. Increased expenditure on rents and housing costs may undermine growth elsewhere in the economy, as consumer spending is diverted towards housing at the expense of sectors such as retail.

Increased levels of wealth inequality within and between generations

Declining homeownership also has implications for both *inter*-generational and *intra*-generational equity. A widening divergence in homeownership rates between the young and the elderly risks leading to increased resentment between age groups and contributing to a political situation where voting patterns are increasingly drawn along age lines. Among the young, homeownership is increasingly contingent on an individual's ability to receive financial support from family for a mortgage deposit, potentially locking out those from less affluent backgrounds and in turn undermining social mobility. Recent research conducted by the Centre for Economics and Business Research (Cebr) for Legal & General shows that two fifths (41%) of homebuyers in London receive help from the "Bank of Mum and Dad", with an average parental contribution in the capital of £31,000[4]. This highlights the extent to which individuals have become dependent on parental support to get on the property ladder.

Negative impacts on wellbeing

Data collected by the Office for National Statistics (ONS) on wellbeing suggests that homeownership is associated with better wellbeing outcomes. For example, ONS research suggests renters are significantly more likely to report being lonely than those who own their home[5]. The ONS suggests that this may be linked to a greater sense of financial security associated with homeownership. Conceivably, this may also be a

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[2] Other types of wealth held by households are pensions, physical wealth (such as cars and furniture, but excluding property) and financial wealth (such as cash savings, bonds and equities)
[3] SMF (2018), "Measuring the Poverty Premium"
[4] http://www.bbc.co.uk/news/business-44283507
[5] https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/articles/lonelinesswhatcharacteristicsandcircumstancesareassociatedwithfeelinglonely/2018-04-10

reflection of homeowners feeling more grounded in their community, with renters potentially more likely to see their community as a temporary and insecure place of residence.

Lack of security of tenure can also complicate family life, with individuals for example having to move children to a different school in the event of being evicted – again potentially undermining wellbeing.

Failing to meet aspirations

We note that homeownership remains a key aspiration for the majority of individuals in the UK; being unable to realise this aspiration is likely to have a negative impact on wellbeing. Survey findings, commissioned from Opinium to support this research show that an overwhelming majority (82%) of under 35s in the UK that do not own a home wish to be homeowners[6]. Some have argued that the recent decline in the proportion of young people owning their own home reflects changing preferences – a shift towards less material lifestyles which favour flexibility over asset accumulation and being tied down by a mortgage. While this may be true for some, survey findings suggest this is very much a minority view.

Given the above – the implications for financial resilience, asset accumulation and wellbeing – there is a compelling case for reversing the recent decline in homeownership in the UK. While renting has its potential advantages – such as making it easier for individuals to relocate (e.g. to a new job), and reducing risks associated with falling house prices and negative equity, the reality is that homeownership remains a key aspiration and lifestyle goal for most individuals in the UK. As we discuss in the next chapters, there is scope for policymakers, and private enterprises, to develop innovative solutions to increase homeownership rates.

[6] Based on a sample of 350 under 35s that do not currently own a home

CHAPTER 3: CURRENT ATTEMPS TO TACKLE THE HOUSING CRISIS

The implications of declining homeownership, and difficulties getting on the property ladder, have led to a number of responses, by government and others, to provide more affordable means of acquiring a property. Each of these has its merits and drawbacks – summarised in the table below – highlighting the fact that there is no "perfect solution". More detailed descriptions of these measures can be found in the appendix of this report. Tackling the housing crisis requires a multi-pronged approach and there is scope for more innovations in this space – something we discuss in the next chapter of this report.

Table 1: Overview of existing measures aimed at improving housing affordability

	Benefits	Drawbacks
Shared ownership schemes	* Can offer an affordable route onto the property ladder, by allowing individuals to purchase a 25% share of a property * Individuals can build up their share of ownership over time	* More limited choice of housing * More limited choice of mortgages * Not as much flexibility (e.g. to decorate/renovate) as with outright ownership
Help to Buy	* Low deposit requirement of 5% can make homeownership more achievable. * Equity loan from government offered at favourable rates of interest.	* Scheme does not tackle underlying problem of high house prices and may indeed push prices up further - limiting who can benefit from the scheme. * Average income of Help to Buy beneficiaries is relatively high, suggesting the scheme does little to help those on more modest incomes onto the property ladder.
Stamp duty reforms	* Recent stamp duty reforms have reduced the tax costs associated with getting on the property ladder.	*The Office for Budget Responsibility, and others, believe the reforms may simply lead to higher house prices, limiting their benefits. The main "winners" from the stamp duty reforms are likely to be existing homeowners, who benefit from higher house prices.

Smaller homes (such as Pocket Living)	* Compromising on space enables lower-priced homes to be sold * Innovative developers such as Pocket Living are creating space-efficient homes that make good use of relatively small floorspaces - "small but spacious" living environments. * Smaller homes may be desirable for small households (e.g. those living alone), and those that do not have many physical possessions (such as the increasing proportion of individuals storing their music, films and books online, rather than in physical formats) *Possibly a relatively environmentally friendly type of housing, given space efficiency and low energy requirements.	* Smaller homes are not suitable for everyone. * Minimum space requirements might be a barrier to gaining planning approval for some developments.
Planning reforms	* Planning reforms can make it easier for new homes to be developed, contributing to lower house prices.	* Recent reforms have yet to provide a significant boost to housebuilding. * The local politics around planning reform is often challenging. E.g. with local opposition to developing on greenbelt land, or opposition to high-rise developments.

CHAPTER 4: CO-LIVING AS A POTENTIAL SOLUTION

In this chapter we explore the extent to which "co-living" could provide a more affordable route to homeownership in the UK, building on some of the existing initiatives discussed in the previous chapter and providing a compelling alternative model of homeownership.

Co-living refers to a system of housing in which individuals have access to a range of shared, communal facilities, which they can draw upon – communities of self-contained[7] homes with shared spaces. This includes:

- Gyms
- Swimming pools
- Laundry rooms
- Bars
- Cinema rooms
- Communal lounge spaces
- Gardens/terraces
- Co-working spaces
- Car sharing facilities
- Communal dining spaces that can be booked for large parties

The costs associated with providing these facilities can be paid for by residents through ongoing service charges. Other co-living models place some emphasis on residents themselves being responsible for upkeep of communal facilities.

The sharing of facilities and spaces allows individuals to rent or buy smaller and in turn more affordable homes that would otherwise be the case. For example, having access to communal laundry facilities and a gym reduces the need to have a washing machine or exercise equipment within the living space being bought or rented out. Individuals can gain access to facilities that would be beyond their financial means if they lived alone (such as a cinema room).

Co-living has been discussed through a number of media outlets in recent months – both positively and negatively. Some hail the housing model as a way of reducing loneliness and a "new way of living", while others speak negatively about the idea of individuals living in small rooms or "glorified student digs"[8]. However, very little of this commentary is based on survey research and an understanding of how the public views this type of living arrangement. Furthermore, very little of the commentary acknowledges the breadth of existing potential co-living arrangements – in terms of size of housing spaces available and communal facilities provided.

Here, we aim to shed more light on the potential of co-living, including through presenting the findings of Opinium survey research commissioned as part of this study. Our analysis suggests that a significant proportion of prospective homeowners have an interest in co-living arrangements – pointing to demand for this type of housing. Specifically, the survey suggests there is interest in a co-living housing offer available *to buy* (rather than just available to rent), suggesting co-living could provide a viable route to homeownership for some individuals.

The survey findings presented in this chapter focus on under 40s living in urban areas, as a key target audience given the difficulties this demographic faces in getting on the property ladder. In addition to survey findings we also explore the current co-living

[7] That is to say, we are not including flat-sharing/house-sharing in our definition of co-living
[8] See, for example, http://www.bbc.co.uk/news/uk-england-london-43090849

landscape in the UK and elsewhere, to understand the existing diversity of housing offers in this space.

Examples of co-living – in the UK and elsewhere

Early examples – Victorian and Georgian garden squares

The concept of co-living is not without historic precedent. In a relatively basic form, squares of housing built in Victorian and Georgian times featured communal private gardens in the middle, for use by residents of the surrounding housing.

Figure 7: Gordon Square Gardens in London – originally private gardens for surrounding residents

20th Century modern living – the Isokon and the Barbican

The 20th Century saw more substantial forms of communal co-living developments emerging, with forward-thinking architects considering how housing needed to change to meet new ways of living. The Isokon building in Hampstead, London, was designed by the architect Wells Coates and opened in 1934. It was an experiment in modern, minimalist urban living in which co-living and sharing of facilities played a role. Most of the flats in the Isokon building had small kitchens but residents had access to a large communal kitchen for the preparation of meals, connected to resident homes by a dumb waiter. The communal kitchen was later converted into a bar and restaurant. Services such as laundry and shoe-shining were also provided on site[9].

The famous Barbican Estate in London, officially opened in 1969, also incorporated many of the principles of co-living. Residents of the Barbican have access to private communal gardens, and integrated into the Barbican are a range of services including a cinema, a theatre, restaurants and an art gallery. Unlike some co-living models, many of these services (such as the cinema and theatre) can be used by the public rather than being the preserve of residents and their invitees. Housing in the Barbican Estate is some of the most coveted in London, given the central location of the development, its iconic design

[9] https://www.independent.co.uk/arts-entertainment/the-pioneering-apartment-block-that-offered-a-blueprint-for-modern-living-is-back-to-its-former-9672223.html

and its incorporation of a wide range of services (such as culture and gardens) into the estate.

Figure 8: Martini bar and private gardens in the Barbican

Experiments with "co-housing"

The 1970s saw an emerging "co-housing" movement in Continental Europe. The first co-housing community in Denmark was built in 1972 for 27 families, close to Copenhagen, by a Danish architect and a psychologist. They had been influenced by Bodil Graae's 1967 article, "Every child should have 100 parents"[10]. It is estimated that today 1 percent of the Danish population – about 50,000 people – live in co-housing which feature communal facilities – such as a shared communal house and dining spaces[11].

Some of these co-housing developments have a "green" aspect to them, with a focus on environmental friendly. In the Munksoegaard co-housing development, close to Copenhagen, a communal building has been made from staw bale[12]. Communal spaces in Munksoegaard include a café, vegetable shop, office space for rent, a sleepover room for rent, shelter for bicycles, a bicycle repair workshop and storage space for rent[13].

Sweden also has a long-standing history of co-housing and the association Kollektivhus Nu ("Cohousing Now") promotes the idea across the country[14].A particularity of cohousing in Sweden is that most of the properties are state-owned, whereas in Denmark they are private initiatives[15]. Having said that, private co-housing developments have emerged in recent years, such as the Urban Villor development[16].

In the Netherlands, co-living between nursing home residents and college students has been explored as a means of benefiting both groups. Young students can face lower housing costs under such a living arrangement, while nursing home residents benefit from the social interactions with younger residents. Students can stay for free in the Humanitas Residential and Care Centre in exchange for 30 hours of volunteer work with the older relatives, per month[17]. This is a good example of co-living with a clear social purpose.

[10] https://degrowth.org/wp-content/uploads/2011/05/lietart_cohousing-and-degrowth.pdf
[11] http://www.cohousing.org/node/1537
[12] http://www.munksoegaard.dk/en/sustainable.html
[13] http://www.munksoegaard.dk/en/about.html
[14] http://kollektivhus.se/
[15] http://www.cohousing.org/node/1537
[16] https://architectureau.com/articles/co-housing-learning-from-sweden/#img=2
[17] https://www.citylab.com/equity/2015/10/the-nursing-home-thats-also-a-dorm/408424/

Co-housing has extended across Europe in recent years, including in the UK. Examples include the Springhill co-housing community in Stroud and Copper Lane in Stoke Newington, London. The Copper Lane development has no private gardens or washing machines, but shared open spaces, laundry and a communal room for parties, music and games, which have to be collectively managed and maintained[18].

In addition to Europe, there are a number of co-housing developments in existence in the US[19].

Emerging types of co-living – the Collective, Roam and WeLive

Recent years have seen the emergence of a new type of co-living arrangement in urban areas, available for individuals to rent but not buy.

The most well-known of these in the UK is The Collective. The Collective has created the world's largest co-living space at its Old Oak development in Willesden Green, containing 550 bedrooms that individuals can rent. Although the rooms available to rent are small, individuals have access to a wide range of communal facilities including kitchens, a spa, a gym, a games room, a cinema, a library, a launderette and a co-working space[20]. A similar concept is "WeLive" in the US, where individuals can rent a small studio space but have access to facilities such as a gym and communal bar, as well as social activities such as a comedy club. Roam (www.roam.co) is another co-living company offering co-living spaces to rent in San Francisco, London, Bali, Miami and Tokyo.

Knight Frank estimates that co-living microflats now account for 5-10% of Britain's build-to-rent private rental sector[21].

New co-living developments such as the Collective and WeLive differ greatly from past co-living models. Firstly, they are currently options only available to rent rather than to buy. Secondly, the private living spaces are much smaller – whereas developments such as the Isokon building provided standalone liveable flats/houses, the Collective offers individuals small rooms and places a stronger emphasis on communal spaces. Thirdly, the communal services are much more developed than other co-housing models – offering, for example, cinema rooms and spas. Unlike some co-housing models, communal areas are cleaned and maintained by the developer, rather than this being the responsibility of the community residing in the co-housing development.

The target audience with The Collective and WeLive also appears to differ compared with other types of co-living model, with a heavy focus on providing trendy accommodation and facilities to millennials without children. Other developments, such as co-housing developments in Denmark and Sweden, provide a housing offer that is more suited to older individuals and families with children.

The co-livign offer provided by the likes of The Collective and WeLive is relatively expensive. Average rents at The Collective Old Oak are more than £1,000 per month while the cost of a studio in WeLive's Wall Street development is more than $3,000 per month, making these co-living options more expensive than a typical flatshare. Nevertheless,

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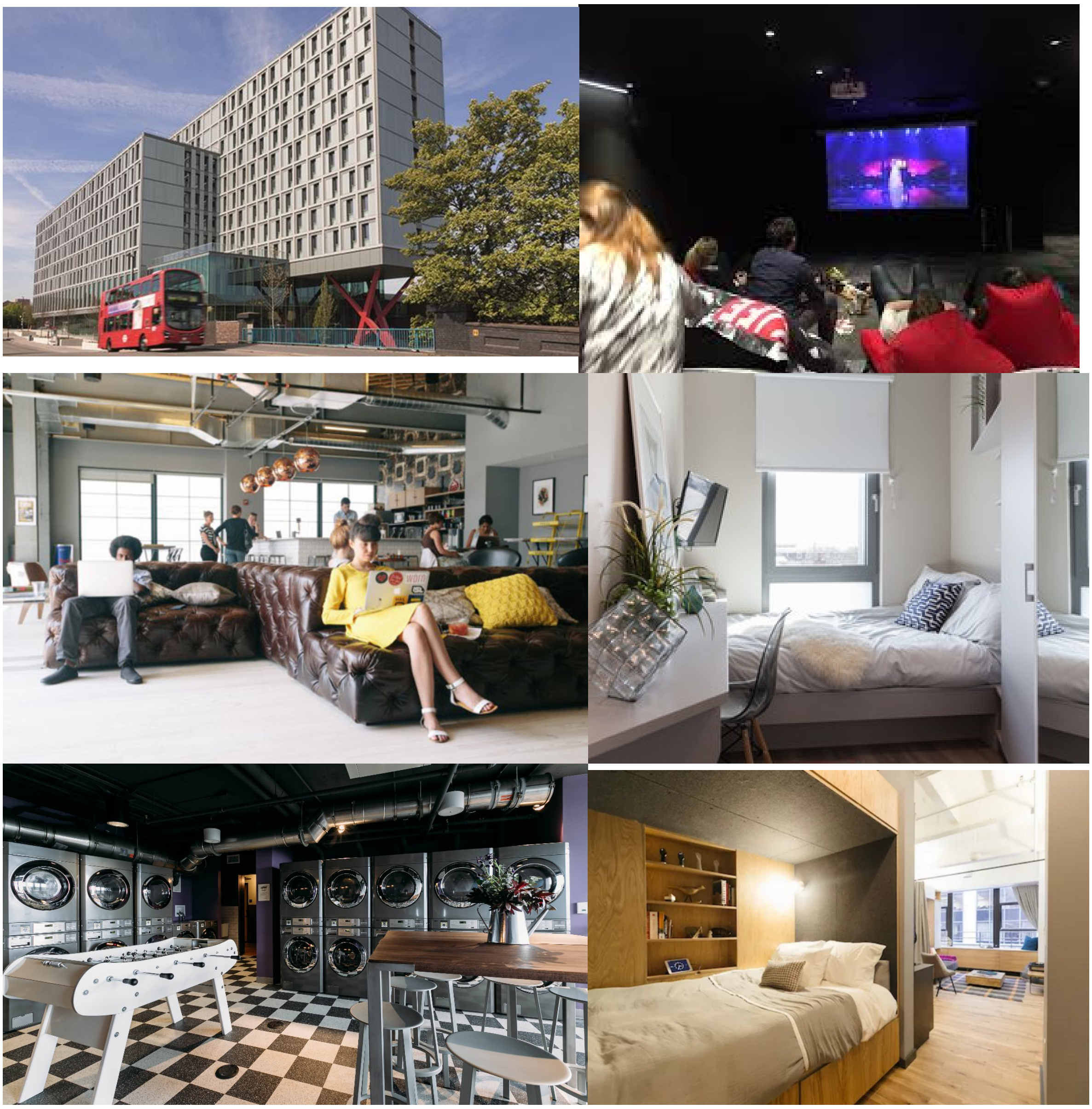
[18]https://www.theguardian.com/artanddesign/2014/aug/31/copper-lane-review-cohousing-stoke-newington-henley-halebrown-rorrison
[19] See http://www.cohousing.org/ for more information
[20] http://www.plparchitecture.com/the-collective-old-oak.html
[21]https://www.independent.co.uk/news/business/indyventure/london-microflats-investment-millennials-coliving-priced-out-housing-market-share-facilities-a7908381.html

demand for this housing offer appears to be there – the Collective Old Oak has a near-full occupancy rate, for example.

In addition to the rooms and small studios offered by the likes of The Collective and WeLive, there has also been an emergence of co-living style features at the upper end of the property market in London. Luxury flats are now available offering gyms, cinemas and even private chefs available for catering dinner parties[22]. The sharing of these facilities helps to spread the costs associated with them over a number of housing units.

Figure 9: Modern co-living spaces: The Collective Old Oak and WeLive Wall Street



[22]https://www.homesandproperty.co.uk/property-news/demand-for-trendy-newbuild-flats-soars-from-londons-fastestgrowing-age-group-the-downsizers-a114356.html

The case for an expanded "to buy" co-living offer in the UK

Given the unaffordability of "conventional" housing offers in the UK – and the limits of some of the existing measures aimed at improving affordability - we believe there is a case for exploring the potential of an expanded "to buy" co-living offer as a means of increasing homeownership. By giving individuals an opportunity to access housing with a range of communal facilities, there is an opportunity to offer smaller, relatively affordable housing within co-living developments.

As discussed, co-living currently exists in various guises, in terms of:

1. Who provides the co-living developments (the state, communities or private enterprises)
2. Whether co-living spaces can be bought or rented
3. The quality and breadth of communal facilities available
4. The size of the private residential space (from rooms/small studios to outright houses)

Co-living spaces could be provided by the government, housing associations and private enterprises, and we would expect some variation in terms of communal facilities provided and size of private residential space (points three and four above), dependent on local property prices and the needs and spending power of prospective buyers. The trade-offs between communal facilities, property size and affordability, with respect to co-living arrangements, are set out in the grid below. The most expensive type of co-living arrangement offers individuals standalone private housing and a wide range of communal facilities. The cheapest option would offer individuals the ability to buy a small studio apartment, with access to relatively basic communal facilities such as a shared kitchen or laundry room – not significantly dissimilar to a flat-share or student accommodation-type arrangement.

Another option, in between these two, is a co-living arrangement which allows individuals to buy a small studio apartment in a co-living space which offers a range of high quality communal facilities such as a gym, swimming pool or cinema room – essentially a "to buy" type of co-housing similar to The Collective and WeLive. We are particularly interest in the extent to which this type of housing offer could appeal to younger individuals – those under the age of 40.

Table 2: Types of co-living development

Better communal facilities

Larger private housing space

Less expensive

	Basic communal facilities (such as a shared kitchen and laundry facilities)	Well-developed communal facilities (such as restauarants, bars, gyms, swimming pools and cinema rooms)
Standalone housing units	1970s style co-housing developments	Barbican style developments and luxury apartment blocks/housing developments (most expensive)
Rooms/small studios	Similar to a room in a "flatshare" or basic student accommodation (least expensive)	The Collective/WeLive/Roam style developments

Less expensive

By compromising on space, individuals would be able to acquire property in a relatively expensive urban area such as London, at a significantly lower purchase cost than a conventional home. Communal spaces, such a shared laundry facilities and lounge areas, reduce individuals' private space requirements. Supporting this, societal trends and technological changes also make smaller private spaces more "liveable" than in the past. For example, online streaming of music and movies has eliminated the need for CD and DVD collections. The growing proportion of childless households has increased the share of individuals with relatively modest space requirements; in 1996 9.2 million (55% of) families in the UK were without dependent children a figure which had risen to 10.9 million (58% of) families in 2016[23].

The social and communal angle of co-living might bring with it a range of other benefits – encouraging people to interact with each other and reducing problems associated with loneliness. Recent research by the Office for National Statistics suggests younger individuals feel more lonely than those in older age groups[24], contrary to common perception that loneliness is predominantly a problem for the elderly. A recent BBC article on The Collective gave examples of individuals who found that co-living helped them to make new friends and improve their mental wellbeing[25].

Other potential benefits of co-living include environmental benefits (for example from denser living arrangements) and secondary financial savings for households. For example, a co-living space may be conducive to the development of a broad "sharing economy", where individuals rent/borrow rather than buy items such as power tools,

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[23] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/bulletins/familiesandhouseholds/2016

[24] https://www.ons.gov.uk/peoplepopulationandcommunity/wellbeing/articles/lonelinesswhatcharacteristicsandcircumstancesareassociatedwithfeelinglonely/2018-04-10

[25] http://www.bbc.co.uk/news/uk-england-london-43090849

bicycles, cooking equipment and crockery. This could translate into significant financial savings for individuals.

We believe that it is these benefits of co-living – tackling loneliness, offering high quality communal services and encouraging sharing - which distinguish it from other affordable housing models discussed earlier, such as shared ownership and Pocket Living.

Co-living solutions could ease pressures elsewhere in the housing market. For example, co-living developments could potentially curb demand for social housing. If they can provide a compelling housing solution for individuals without children, co-living developments could free up family-sized homes for those with children who require more space. As such, co-living could lead to a more efficient use of the UK's housing stock.

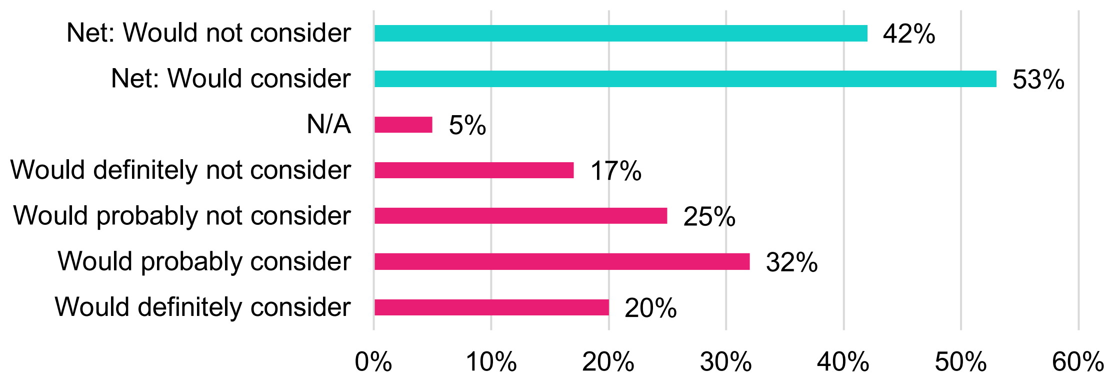
By offering a lower entry price onto the housing ladder, co-living could increase homeownership rates among younger age groups. Individuals would thus forgo less income on rental payments over the course of their lives. If co-living units appreciate in value over time, they can also help individuals to build up additional housing equity.

Potential demand for co-living spaces

Co-living will only work as a viable route to homeownership if there is demand for such a type of housing tenure. Survey research commissioned as part of this research suggests that, indeed, there is such demand.

A survey of under 40s living in urban areas, commissioned as part of this research[26], showed 53% of survey respondents willing to consider buying a co-living product, with 42% not willing to consider it (among those that do not currently own a home).

Figure 10: Would you consider buying a co-living product? Answers among under-40s living in urban areas that do not currently own a home (n = 760)

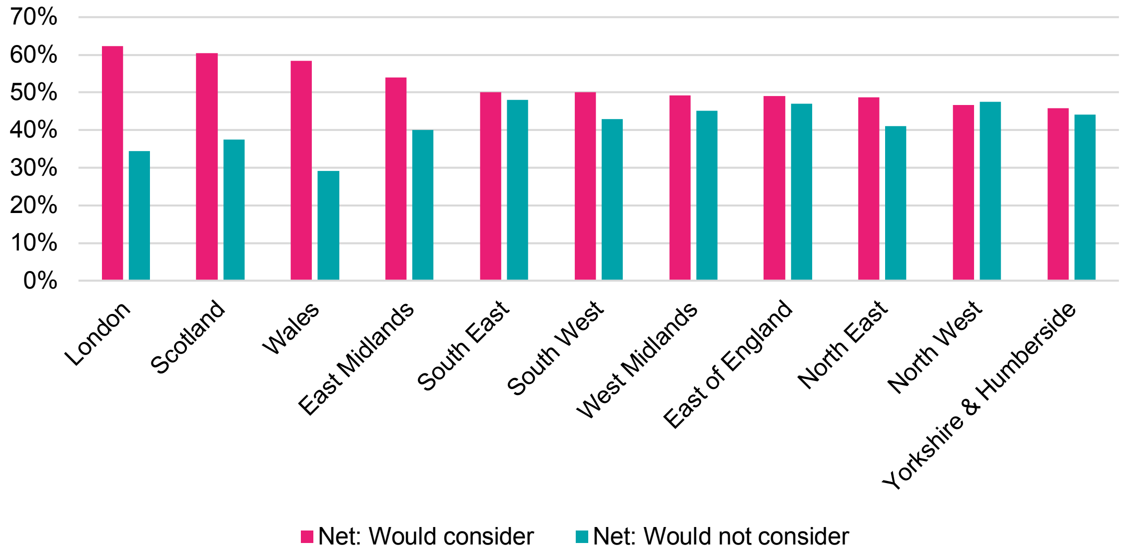


Source: Opinium

The proportion of under 40s in urban areas willing to consider a "to buy" co-living product was particularly high in London, with over 60% willing to consider such as product – likely to reflect the difficulties associated with purchasing a "conventional" property in the capital.

[26] The survey was conducted by Opinium Research between 13th and 23rd April 2018. In total, 1,385 under 40s living in urban areas were surveyed.

Figure 11: Would you consider buying a co-living product? Answers among under-40s living in urban areas that do not currently own a home, by region

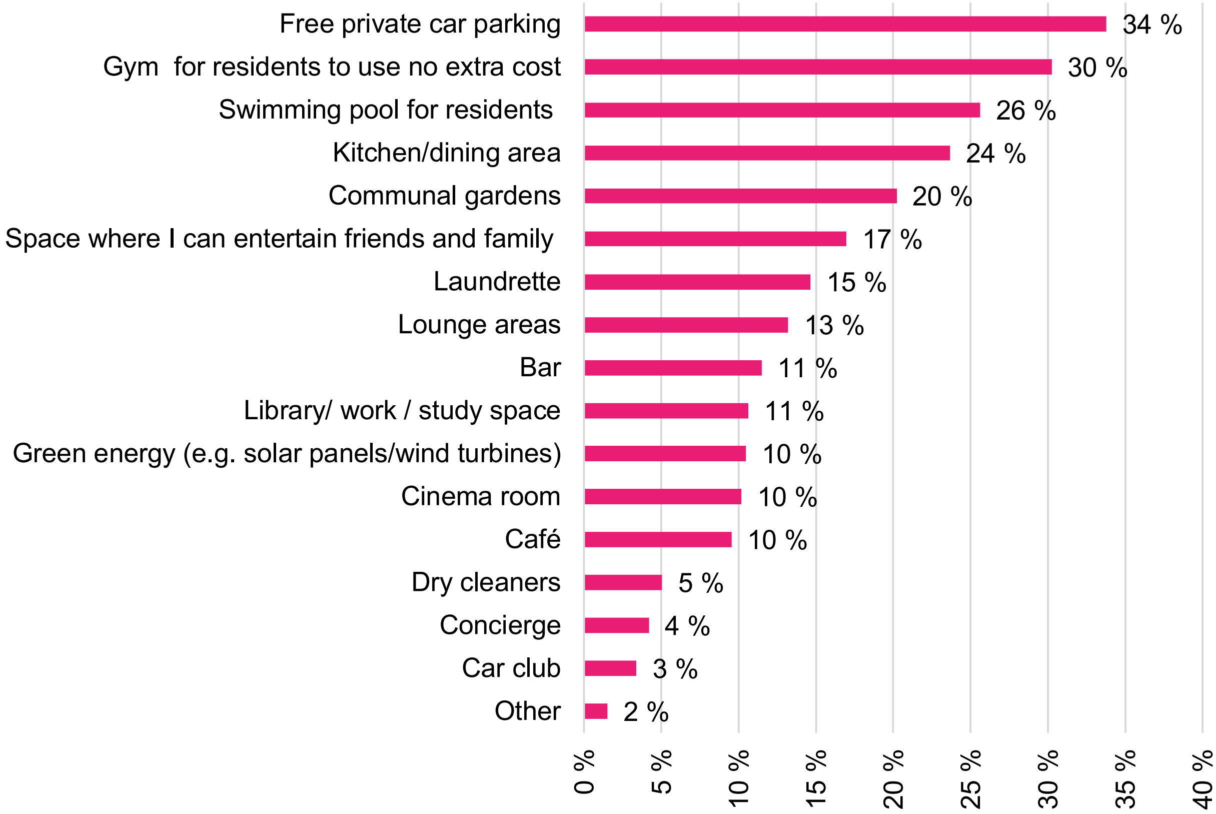


Source: Opinium

For the purpose of the survey, we explained the concept of co-living as something similar to the rental offer provided by The Collective and WeLive, but available to purchase – that is, small studio apartments with access to a wide range of communal facilities. We also explained that individuals purchasing such a co-living offer would pay a monthly service charge for shared facilities, in addition to any mortgage costs.

In terms of the communal facilities that individuals would be most interested in, in a co-living space, survey respondents under the age of 40 expressed the most interest in free private car parking (34% interested), a gym for residents (30%), a swimming pool (26%), a kitchen/dining area (24%) and communal gardens (20%).

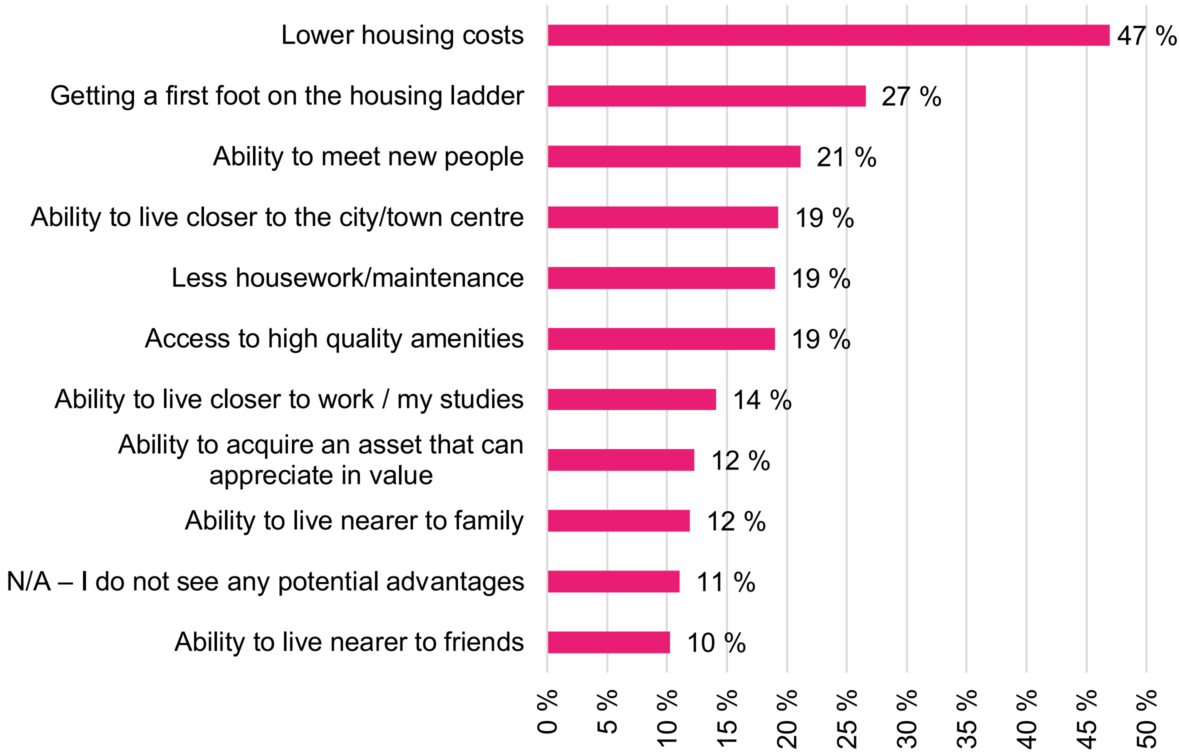
Figure 12: Which amenities/services, exclusively for use by residents, would be of most interest to you in a co-living space? Survey responses for all under 40s living in urban areas. n = 1,385



Source: Opinium

In terms of the perceived advantages of co-living, the most commonly cited advantage among under-40s was lower housing costs (47%), followed by getting a first foot on the housing ladder (27%) and the ability to meet new people (21%).

Figure 13: What do you see as the potential advantages of co-living? Survey responses for all under 40s living in urban areas. n = 1,385



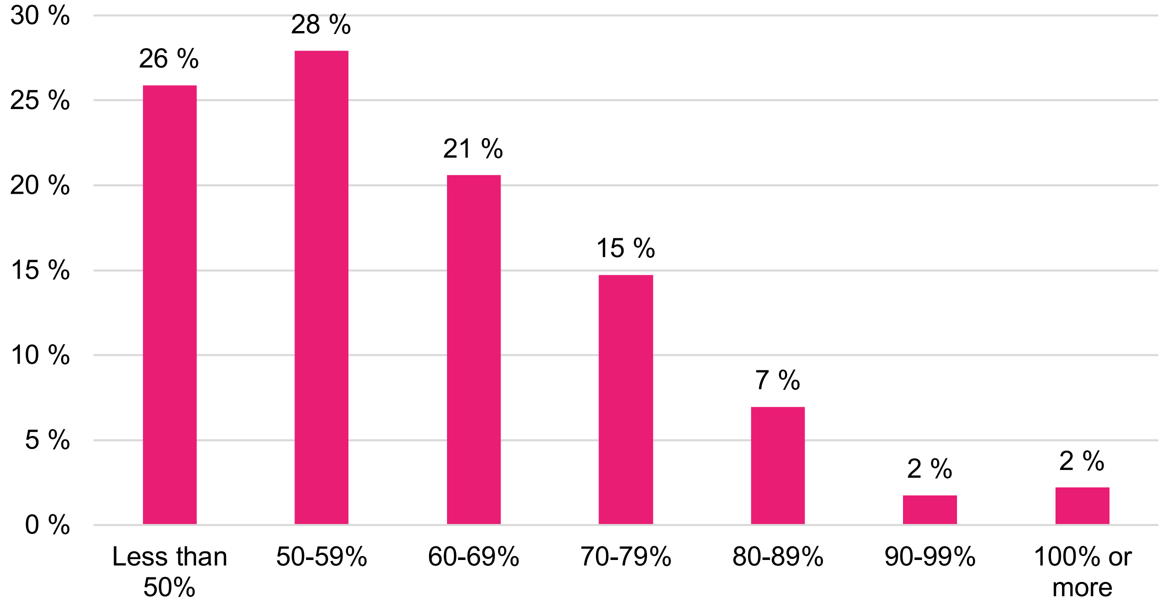
Source: Opinium

Making a co-living offer financially compelling

For a co-living "to buy" option to work, it needs to be financially compelling – from the perspective of buyers, developers and other stakeholders such as mortgage lenders.

As part of the survey research undertaken as part of this study, we asked individuals about the maximum price that they would be willing to pay for a studio flat in a co-living development, relative to the price of a conventional one bedroom flat in the same area. As graphed below, responses to the question varied among the under 40s, with a mean maximum price of about 60% of the value of a one bedroom flat.

Figure 14: What is the most you would consider paying for a co-living space compared to the equivalent price of a one bedroom flat in the same area?. Survey responses for under-40s living in urban areas. n = 1,385



Source: Opinium

To give an example of what this kind of financial proposition could mean for an individual's ability to get on the property ladder, consider the case of an area in London where a typical one bedroom flat costs about £350,000. If a small studio apartment in a co-living space can be sold, viably, at 60% of this price, it would entail a sale value of £210,000. If the co-living product were eligible for purchase using Help to Buy, then the purchase could be made with a 5% deposit of £10,500, a 40% government equity loan of £84,000 and a mortgage of £115,500 on the remaining balance. Assuming a maximum mortgage to income multiple of 4.5, this could be a viable form of house purchase for those on a salary of about £26,000 and above, contingent on an individual having a sufficient deposit. In contrast, the one bedroom flat, also bought with Help to Buy and assuming a 40% equity loan, would only be accessible for those with an income of about £43,000 or more.

This is, of course, a stylistic worked example. Mortgage lending is contingent on other factors beyond income, such as an individuals' other spending commitments and how that impacts their ability to service a mortgage. However, what these calculations highlight is the role that affordable co-living units could play in making homeownership achievable for a wider group of individuals.

Continuing with our illustrative example, if the mortgage of £115,500 is taken out at an interest rate of 4% for a period of 25 years, this entails monthly payments of £610 – about 35% of the disposable income of an employee earning £26,000[27].

In addition to mortgage costs, someone buying a studio in a co-living development would probably face service charges associated with the maintenance of shared spaces such as gyms, communal lounge areas and cinema rooms. Depending on the breadth and quality of communal services, such charges could be substantial – of a similar order of magnitude to mortgage costs or more. Even with a conventional leasehold flat without substantial

[27] Tax calculations made using figures for the 2018/19 fiscal year.

communal facilities, the Association of Residential Managing agents estimates that service costs in London average between £1,800 and £2,000 per year[28]. Service costs could escalate drastically once facilities such as swimming pools, gyms and cinemas are factored into a co-living space.

As such, realising the twin visions of increased housing affordability and desirable, high quality communal living requires a challenging balancing act. Enhancing the quality of communal facilities could compromise the extent to which co-living can provide homeownership to those on modest incomes. Including service charges, overall housing costs could end up proving unaffordable. And mortgage lenders would presumably consider such service charges, and an individual's ability to pay them, when deciding whether or not to grant a mortgage.

Having said that, there is scope for diversity of co-living offers, with budget and premium developments offering different levels of communal facilities. Furthermore, there may be scope to share some of the costs associated with communal facilities with the wider public or with government; for example residents' gyms could be made available for non-residents (for a cost) during certain times of day. Such moves could help reduce service charges associated with maintenance – providing a more affordable proposition.

Establishing the construction costs that a developer would face in creating a co-living space is difficult, given the range of communal facilities and sizes of private housing space that could be provided. At its most basic level – small studio apartments and basic communal facilities – the construction costs of a co-living space could be close to those associated with student accommodation. According to CBRE, the average build cost of an en-suite student bedroom ranged from £35,000 to £45,000 in 2014[29]. Research by JLL on student accommodation in London in 2017 estimated a build cost of £80,000 to £90,000 excluding land costs[30].

[28] https://hoa.org.uk/advice/guides-for-homeowners/i-am-managing-2/should-i-extend-my-lease/service-charges-and-maintenance-companies-problems-with-your-leasehold-property/

[29] https://www.constructionnews.co.uk/analysis/news-analysis/student-accommodation-high-demand-high-cost-high-reward/8684913.article

[30] http://www.jll.co.uk/united-kingdom/en-gb/Research/London%20Student%20Housing%202017.pdf

CHAPTER 5: CHALLENGES TO ROLLING OUT CO-LIVING

While co-living arrangements have the potential to offer an affordable route to homeownership, in addition to a new social, community-oriented model of living, its successful rollout faces a number of challenges, which we discuss below.

Affordable housing and minimum space requirements

We note potential challenges associated with gaining planning permission for co-living developments. If the size of studio apartment needed to make a development financially viable is too small, then the co-living plans could be barred due to falling short of minimum space requirements set out by the government. The extent to which co-living may fall subject to minimum space requirements in the future is unclear, particularly if it is a "to buy" offer. In its discussion of "to rent" co-living offers the draft New London Plan states that there are currently no minimum space requirements for these units, though "if deemed necessary, the Mayor will produce planning guidance, including minimum space standards, for this form of accommodation"[31].

Requirements to provide "affordable housing", such as affordable rental housing, may also undermine the financial viability of some co-housing developments. In its discussion of "to rent" co-living spaces in the capital, the draft New London Plan states that this form of accommodation is required to contribute to affordable housing. However, because it does not meet minimum housing space standards and generally consists of bedrooms rather than housing units, it is not considered suitable as a form of affordable housing itself. Therefore, a financial contribution is required for affordable housing provided through the borough's affordable housing programme.

Given these factors, the future planning regime could have a significant impact on the financial viability of co-living schemes in the UK.

Land space required to create viable developments, and developer interest

Depending on the quality and number of communal services offered, the amount of land space required to create viable co-living developments could vary significantly. In particular, co-living developments with a wide range of services (such as a gym and cinema) might require a large number of living spaces, so that the high service costs of maintaining these facilities is spread across a large number of housing units. That is to say, co-living developments with high quality and wide-ranging communal services may lend themselves to large "campus"-type developments.

Campus-type developments seem to be particularly well-suited for co-living; their size might make it easier for a co-living development to create a strong sense of community. Furthermore, campus-style developments can provide mixed-use developments – for example including retail offers, offices and co-working spaces within the development. The inclusion of commercial spaces within a co-living development can further enhance the sense of community.

Land requirements for co-living developments could be large and it might be difficult to find such land space in urban areas such as central London. Smaller developments

[31] https://www.london.gov.uk/what-we-do/planning/london-plan/new-london-plan/draft-new-london-plan/chapter-4-housing/policy-h18-large-scale-purpose-built-shared-living

located very close to the city centre might have to compromise on some communal facilities, or have sufficiently premium service charges, in order to be financially viable.

At a roundtable discussion hosted as part of this research, which several property developers attended, there was discussion of the extent to which large land requirements could limit developer interest in constructing co-living spaces. However, some within the group said that they would consider such a housing model, along with other campus-type developments.

Financing the offer

Given the lack of co-living developments that can be bought in the UK (particularly "Collective-style" rooms and small studios), there are significant unknowns around the value of such developments, and the potential demand. This is likely to make it relatively difficult for developers to gather the finance necessary to build co-living spaces.

Similarly, given the same unknowns, mortgage lending for co-living spaces might not be forthcoming, given the risks to the lender if such developments do not hold their value.

Creating a functioning co-living financing model – for developers and prospective buyers – might require some organisation to provide an initial **proof of concept,** demonstrating that co-living can work as a viable model of homeownership for certain segments of society, such as young professionals. There might be a role for government in providing or supporting this initial proof of concept development – for example, by releasing unused government land or building space to support the construction of co-living spaces.

Creating a liquid market

Creating a liquid market – where it is easy to buy and sell co-living spaces - will be crucial if co-living is to be a success. It is important that this type of housing avoids the lack of liquidity that has plagued niche types of housing, such as retirement housing. Research by the Elderly Accommodation Counsel published in 2017 showed that about half of new build retirement homes sold during a 10-year period were later re-sold at a loss[32]. This is likely to reflect lack of demand for second hand retirement homes, in addition to under-investment from developers of retirement homes once they have built the properties (e.g. in terms of maintaining and upgrading facilities)s.

Ensuring liquidity will require careful research of likely demand for different types of co-living space across the UK, ensuring that developments are tailored to local needs. Furthermore, retention of demand and value with co-living spaces, much like with retirement homes, requires continued investment and management by developers. Ensuring liquidity and continued demand may require property developers to develop a new approach to doing business, with a much stronger focus on ongoing, high quality property management and investment.

Length of tenure

One barrier to successful rollout of "to buy" co-living spaces, particularly small studios in urban areas, is the likely length of time that individuals would wish to live in such spaces.

[32] http://www.bbc.co.uk/news/business-41200686

In the rental portion of the market, turnover of residents is high, with The Collective reporting an annual turnover rate of about 50%[33].

While small studio co-living spaces might work well for single individuals without children, space requirements mean this is not a suitable space for larger families. For those wishing to start a family in the near future, this can undermine the attractiveness of buying, rather than just renting a co-living space, given the transaction costs of moving such as legal fees.

Having said that, we note the societal trend towards having children and "settling down" at a later age, which means such a form of tenure could be suitable for more individuals, for longer. While in 1976 the average age of mothers giving birth to a child was 26.5, by 2016 this had risen to 30.4. For fathers, the age at time of birth rose from 29.6 to 33.3.

Furthermore, we note that co-living could appeal to those that have no plans of ever having children, or "settling down" – for this segment of society, co-living could provide a compelling means of living, providing an ongoing social environment as an alternative to the traditional family unit.

Such considerations are likely to vary significantly across the country; outside of London, it might be possible to provide affordable co-living spaces that are large enough to accommodate families, for example. In the capital, an affordable co-living offer might be restricted to smaller housing units only suitable for households without children.

What is being purchased?

As part of the roundtable event held as part of this research, there was significant discussion around how a "to buy" co-living model would work, particularly if the housing unit being bought is a small studio flat in a large co-living development.

Conceivably, there are a number of purchasing models that could be explored with respect to such types of co-living: Individuals could purchase a leasehold on a small studio space in a co-living development, in cash or with a mortgage. There was some discussion around whether individuals could, instead, purchase a share of the entire building, which would entitle them to use rooms and co-living spaces, or allow them to derive a share of the rental income from those using co-living spaces. In the latter case, there was some discussion around whether such a purchase would be supported by a mortgage or via a new type of financial vehicle allowing individuals to hold a modest stake in such developments.

As with housing size and the communal facilities on offer, there is scope for developers and mortgage lenders to be flexible here, offering a range of purchase options.

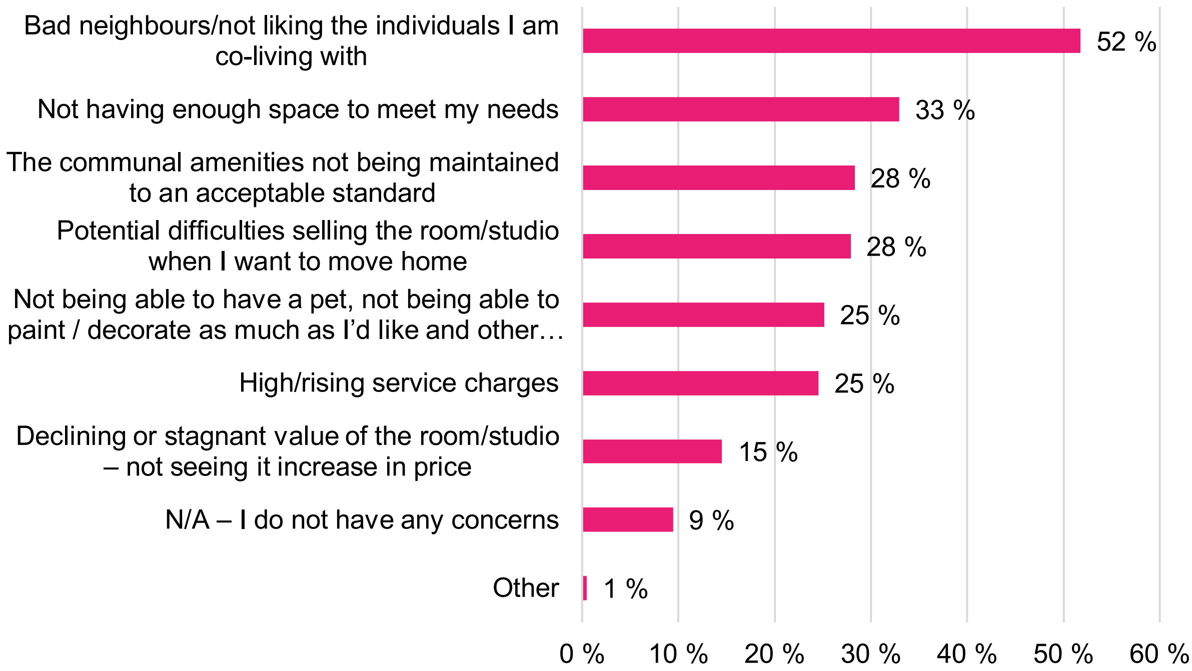
Concerns among prospective buyers

In our survey research as part of this study, we asked under 40s living in urban areas about their greatest concerns with respect to buying a studio co-living space. Over half (52%) stated bad neighbours as a concern, while a third (33%) expressed concerns about not having enough space to meet their needs. Difficulties selling the co-living space and poor

[33] https://www.forbes.com/sites/oliversmith/2018/03/27/exclusive-britains-co-living-king-has-raised-400m-to-take-on-wework-in-america/#4b15c5fd9fca

maintenance of communal facilities were also frequently cited issues, with 28% reporting these as concerns.

Figure 15: What would be your greatest concerns about purchasing a co-living space? Survey responses for under 40s living in urban areas. n = 1,385



Source: Opinium

The significant concerns about neighbours and maintenance of communal space highlight the strong role that building/co-living community managers would need to play in ensuring the success of this type of housing concept. Unlike other types of housing, the value of co-living spaces could be much more closely tied to the nature of one's neighbours, how they behave and the extent to which they look after or abuse communal facilities. Managers of co-living spaces would require different skills to managers of say traditional apartment blocks, including a strong ability to manage differences and issues of conflict between neighbours. Demand for co-living spaces, and the liquidity of the market for co-living units, depends on good community management being in place.

CHAPTER 6: CONCLUDING REMARKS

Co-living could provide a suitable route to homeownership in the UK, provided it can be offered at a financially affordable price. Survey research presented in this report shows a majority of under 40s in urban areas, who do not currently own a home, willing to consider the purchase of a "to buy" studio apartment in a co-living space.

In cities such as London, this might mean compromising on space, with co-living units being relatively small studio apartments. Elsewhere, in the UK, affordable co-living units consisting of larger flats or houses could be provided.

The key distinguishing factor of co-living, in contrast to other types of housing tenure, are the communal facilities that it could potentially offer. Co-living and sharing of facilities allows individuals convenient access to services that they would otherwise be unable to afford in their own living space – such as gyms, swimming pools and cinemas.

Furthermore, we note the potential societal benefits of co-living arrangements – such as their ability to reduce the pervasive problem on loneliness in modern society. Interactions in communal spaces, such as shared dining facilities and lounge areas, can prompt the formation of new friendships, conversations and entertainment – to the benefit of wellbeing. Co-living also has the ability to encourage a wider "sharing economy" where individuals increasingly borrow rather than rent seldom used assets such as power tools, recreational equipment and some kitchen appliances – financially benefiting individuals.

Although co-living carries with it a number of potential benefits, there are several challenges associated with rolling out a successful and compelling co-living "offer". Minimum space and affordable housing requirements could limit the viability of some schemes. And developers face a difficult balancing act between communal facility quality and affordability of schemes. The high service charges associated with extensive communal facilities could make this an unaffordable option for those on modest incomes.

The rollout of co-living requires a supportive financial environment; developers need to be able to access the finance needed for such developments. And prospective buyers of co-living units will for the most part need access to mortgages. Uncertainties around the value of co-living space makes both of these aspects of finance difficult at the outset. There may be a role to be played by the public sector in supporting an initial "proof of concept" development to demonstrate the underlying demand for and value of co-living spaces.

Appendix: Overview of existing measures aimed at addressing the housing crisis

This appendix provides a description of some of the policy measures and initiatives described in Chapter 3 of this report, which provided an assessment of their benefits and drawbacks in terms of addressing the issue of housing unaffordability in the UK.

Affordable housing requirements and shared ownership schemes

Section 106 (S106) agreements are a mechanism which makes a development proposal acceptable in planning terms that would not otherwise be acceptable. S106 obligations set out by local government can include the need to provide affordable housing within a development in order for it to be permitted. “Affordable housing” covers a number of types of housing offer, including shared ownership housing available to purchase.

Shared ownership housing allows an individual to purchase a portion of a property (such as 25%), which can be acquired using a mortgage. The individual also pays rent on the remaining portion of the property – usually to a local authority or housing association.

Shared ownership can make homeownership much more viable for individuals, given the significantly lower mortgage deposit requirements, and the lower loan-to-income ratios that an individual would face on a mortgage related to the shared ownership purchase. Furthermore, under shared ownership, individuals have the option of acquiring a greater portion of the property over time – increasing their equity and reducing their rental payments on the portion of the property that they do not own.

While shared ownership can be an attractive route to homeownership for some individuals, it is not without its drawbacks. The choice of properties available under shared ownership may be much more limited than is the case when making a “conventional” house purchase – according to the Council of Mortgage Lenders there are only around 200,000 shared ownership households in the UK, a tenure that accounts for just 0.4% of England’s housing stuck[34]. Choice of mortgage products may be more limited with respect to shared ownership. And individuals may not have as much flexibility as they would if they owned a home entirely – for example, there may be restrictions on the extent to which a property can by decorated and developed.

Help to Buy

Help to Buy is a government scheme first announced in the March 2013 Budget. It is designed to help those struggling to save a deposit for a home or move up the property ladder as they have limited equity. There are two main elements of the Help to Buy scheme – the equity loan aspect of the scheme (which is ongoing) and the mortgage guarantee aspect of the scheme (which came to an end in December 2016).

Part one: Equity Loan

The equity loan scheme is open to both first-time buyers and homemovers – but is restricted to new-build homes.

Under this scheme, the home buyer is only required to raise 5% of the property value as a deposit. The government then provides a further loan of up to 20%. With a combined

[34] https://www.cml.org.uk/news/press-releases/shared-ownership-ugly-sister-or-cinderella/

deposit of up to 25%, individuals can then access more attractive mortgage rates from lenders participating in the scheme.

To reflect the current property prices in London, from February 2016 the Government increased the upper limit for the equity loan it gives new home-buyers within Greater London from 20% to 40%, providing more support for those looking to get on the property ladder in the capital.

For the first five years, the equity loan from the government is interest-free. In year six, individuals face an interest rate of 1.75% which will increase at a rate of 1% of that figure plus any increase in inflation (as measured by the Retail Prices Index (RPI)), every year thereafter. Borrowers can repay the equity loan at any time without penalty.

If an individual does not repay the equity loan while they are still living in the property, when they come to sell it, the government will reclaim its 20% stake in the home at its current value.

The Equity Loan part of Help to Buy only applies to properties worth up to £600,000. The property purchased must be the buyer's only residence, meaning that Help to Buy cannot be used for a buy-to-let investment.

Part two: Mortgage Guarantee

The Mortgage Guarantee element of Help to Buy, which ended in December 2016, was designed to give first-time buyers and homemovers with a small deposit a better chance of getting a mortgage.

Unlike the Equity Loan part of Help to Buy, the Mortgage Guarantee element applied to both new-build and existing homes. The maximum purchase price of £600,000 was the same.

Under the scheme, buyers only needed to raise a deposit of 5% of the property's value, with the government then providing a guarantee for a further 15%. With the government guaranteeing part of the mortgage, lenders were thus more likely to lend to an individual with a lower deposit, given that the government guarantee limited the risks associated with this lending.

Advantages and disadvantages of Help to Buy

Help to Buy has helped individuals to buy a home, with the equity loan scheme used to support about 160,000 housing completions between its introduction and the end of 2017[35].

However, many have criticised the scheme and the extent to which it is well-targeted. Many believe that Help to Buy may have pushed up house prices further by increasing demand for housing – thus leaving affordability little changed. Furthermore, the average incomes of those using the scheme are by no means modest, suggesting that it is doing little to help those on average incomes get on the property ladder. Across England, the mean household income for those using the Help to Buy equity loan scheme (between 2013 and the end of 2017) was £50,669, compared with a UK mean household gross

[35] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/702626/HTB_EL_and_HTB_NewBuy_statistical_release.pdf

income of just over £40,560 in the 2015/16 fiscal year[36]. For those in London, the mean household income of for those using Help to Buy was £69,509.

Ultimately, while Help to Buy has helped individuals get on the property ladder by reducing mortgage deposit requirements, the scheme fails to tackle the underlying problem of excessive house prices. Even with a smaller mortgage deposit requirement, hefty house price-to-income ratios mean that many individuals struggle to get the financing needed to buy a home.

Stamp duty reforms

Beyond Help to Buy, a number of stamp duty reforms have been introduced by the government in recent years in an effort to make it easier for individuals to get on and move up the property ladder. Stamp duty is a tax paid by individuals when they purchase a property – the financial costs of which might be a barrier to buying a home.

The 2014 Autumn Statement saw then-Chancellor George Osborne announce an overhaul of the UK's stamp duty regime, eliminating the previous "slab structure" which saw significant hikes in stamp duty when house prices rose from one stamp duty tax band to another. The new system of stamp duty offers more gradual increases in stamp duty as property prices rise. Furthermore, the new stamp duty system offered lower stamp duty rates for homes valued below £937,000, compared with the previous tax regime.

The 2017 Autumn Budget, saw the Chancellor Philip Hammond abolishing stamp duty for first-time buyers, on homes valued under £300,000, in a further effort to make homeownership easier.

As with Help to Buy, these stamp duty changes have come under some criticism, with some believing that the measures may merely push house prices up further, reflecting increased demand for housing. As the Office for Budget Responsibility (OBR) has noted, the main gainers from the policy are people who already own properties (due to higher house prices), rather than first-time buyers themselves[37].

Smaller homes such as Pocket Living

One response to high house prices has been the development of smaller homes in the UK. Research suggests that the size of homes has shrunk significantly in recent decades. A study by LABC Warrant, which provides warranties for new-build homes, found the average living room in a house built since 2010 was 17.1 square metres (184 sq ft), compared with 24.9 sq m (268 sq ft) in the 1970s, a 32% contraction. The study also found that modern-day master bedrooms were on average 13.4 sq m (144 sq ft) in size, compared with 14.7 sq m (158 sq ft) in the 1970s, while kitchens had shrunk by 13% in size[38].

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[36] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/702626/HTB_EL_and_HTB_NewBuy_statistical_release.pdf

[37] OBR, Economic and Fiscal Outlook, November 2017

[38] https://www.theguardian.com/business/2018/apr/08/uk-living-rooms-have-shrunk-by-a-third-survey-finds

Shrinking home sizes are a contentious issue, with many referring to "rabbit hutch homes" that are not big enough to meet a family's requirements[39] – for example due to a lack of storage space. Having said that, if the alternative is larger but more expensive homes, then smaller size might be (for some) a compromise that they are willing to make.

Furthermore, consideration needs to be given to changing lifestyles and the impact this has on size requirements in a home. Technological advances, for example, have consolidated the number of electrical items that individuals need to own – smartphones for many now perform the role of a camera and a music player, and eliminate the need for a landline phone. Online access to music, electronic books and films eliminates the need for CDs, DVDs and physical books. A more developed "sharing economy" in the future could see households increasingly sharing/renting rather than owning items such as power tools which are seldom used. Given this, smaller homes may provide a liveable environment, at a lower cost to individuals.

In addition, other lifestyle changes may lend themselves to more compact homes, such as the declining popularity of baths in favour of showers[40], as well as individuals eating out more frequently and cooking at home less often[41].

In addition, smaller household sizes, in terms of the number of people in the household, mean that average space requirements are likely to be lower now than in the past. In 2017, around 28% of households contained just one person, up from 17% in 1971[42].

Developers, such as Pocket Living in London, are creating well designed "micro homes" – smaller than conventional homes and flats, but designed in a way that makes the best possible use of the available floorspace. The "Pocket Homes" provided by Pocket Living are sold outright at a discount of at least 20% of the surrounding market rate, and are only available for first-time buyers that live or work locally.

Ultimately, smaller homes will not be a solution for everyone – for example those with large families – but they can provide a liveable and affordable route to homeownership for others. Changing lifestyles – such as smaller household sizes and technological advances – mean that this mode of living may be more suitable than was the case in the past. There is significant scope for property developers to offer innovative, space-efficient and affordable homes.

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[39] See, for example, https://www.theguardian.com/society/2015/dec/02/rabbit-hutch-homes-should-be-thing-of-the-past-say-architects
[40] https://www.telegraph.co.uk/finance/property/news/7885379/Baths-go-down-the-plughole.html
[41] http://uk.businessinsider.com/how-millennials-eating-habits-differ-from-baby-boomers-2018-3
[42] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/bulletins/familiesandhouseholds/2017

Figure 1: A space-efficient micro home

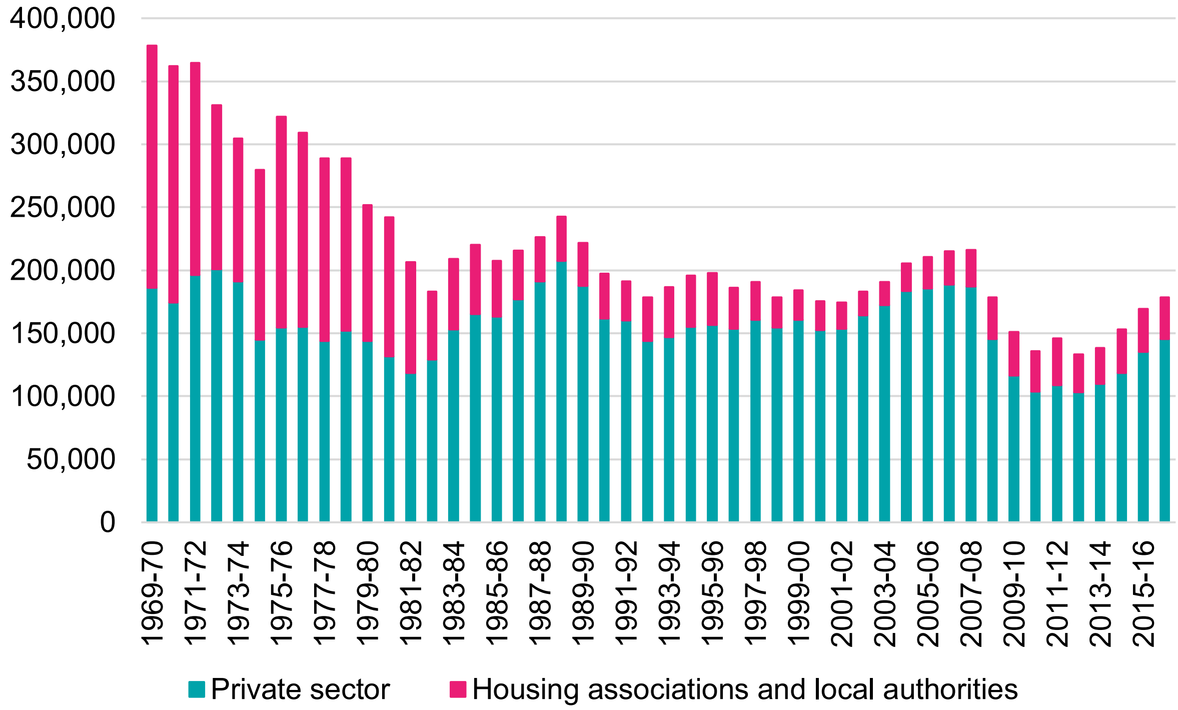
Planning reforms/incentives to kick-start housebuilding

In addition to stamp duty reforms and Help to Buy, government has also introduced a range of initiatives in an attempt to boost levels of housing supply and in turn curb house prices. In 2015 the Chancellor George Osborne and Business Secretary Sajid Javid announced a range of reforms to the planning system aimed at making housebuilding easier[43]. In 2016, the Home Building Fund was introduced, which provides development and infrastructure finance to support homebuilding. The 2017 Budget saw Chancellor Philip Hammond establishing a review of the planning system, aimed at understanding why the number of permissions being granted is exceeding the number of homes being built[44].

Ultimately, measures which stimulate housing supply and make it easier to build new homes are a key solution to resolving issues associated with housing unaffordability. By ensuring that housing supply keeps pace with population and household growth, it is possible to keep a lid on house price increases. At present, however, annual levels of housebuilding are far below where they stood in the 1970s, in large part because of a substantial decline in the number of homes being built by local authorities.

[43] https://www.ft.com/content/9187403c-2662-11e5-bd83-71cb60e8f08c
[44] https://www.gov.uk/government/speeches/autumn-budget-2017-philip-hammonds-speech

Figure 2: Housebuilding: number of permanent dwellings completed in the UK



Source: Ministry of Housing, Communities and Local Government live tables of housing statistics