LET'S BUILD A BETTER FUTURE
LET'S #BUILDSOCIALHOUSING

BUILDING OUR WAY OUT

INVESTING IN SOCIAL HOUSING TO BOOST THE ECONOMY AND LEVEL UP THE COUNTRY

Shelter

CONTENTS

EXECUTIVE SUMMARY

Our housing emergency has haunted people living right across the country during the pandemic. Tens of thousands of homeless families have been forced to lockdown in temporary accommodation; told to 'stay at home' when they don't have one. Many more have struggled paying high private rents for squalid homes; told to work from home when they've nowhere fit to do it or home school when they've not got the space.

Never has it been clearer that so many have been left behind by our housing emergency, and that as we build back from the pandemic we need to level-up housing.

But now a third emergency – a deep recession – not only threatens to make it even harder for people on low incomes to keep up with the rent and a new wave of evictions and repossessions. It threatens our housebuilding capacity too, through construction job losses and failed businesses. In doing so it stands to make it harder for us to end the housing emergency.

The solution to the housing emergency has always been to build our way out of it, with more decent social rented homes that people on low incomes can afford. Now, in the recession, investing in new social rented housing also holds the key to saving our housebuilding capacity and the contribution it makes to the economy. With a rescue package of investment in the coming comprehensive spending review, in just two years we can:

- Save jobs
- Build 50,000 new social rented homes
- And 145,000 new affordable homes in total

Putting the investment in now will boost our housebuilding capacity and boost the economy whilst delivering urgently needed social rent homes. This is how we build our way out of this crisis. And investment is essential if we are to build back to a better place than before the pandemic. A rescue package must be followed by a long-term investment programme in social housing to break the back of our homelessness emergency and level up the country.

A pandemic during a housing emergency

Our failure to end the housing emergency before the public health emergency began has made facing it much harder.

As the pandemic began, too many low income households were living in expensive and insecure private rented housing. Many had to endure poor conditions during lockdown. New research by YouGov presented for the first time in this report found that in lockdown alone 15% of private renters had some kind of housing maintenance problem that caused them or someone they live with stress.[1] With almost half of working renters only one paycheque away from losing their home before the pandemic began, the combination of lost earnings and high private rents has pushed more than 300,000 renters into arrears since late March.[2] Consequently, more than a fifth of private renters now fear being asked to leave their home in the next six months.[3] This combination of poor conditions, high rents and insecurity has taken its toll. Only half of private renters in England say their home has made them feel safe during the pandemic.[4] A quarter say their housing situation had a negative impact on their mental health during lockdown.[5]

The growing problems in the private rented sector have led to increased homelessness and stretched our homelessness safety net to breaking. There were more than 90,000 households living in temporary accommodation; a number that had been steadily climbing for a decade. At 129,000, the number of homeless children almost matched the previous record high.[6] And the high numbers living in temporary accommodation had pushed up its cost to more than £1 billion a year with ever shadier corners of the market being looked into to find new TA.[7] For many families living in temporary accommodation, particularly for those living in dingy bed & breakfasts or similar, the necessity to lockdown for almost every hour of every day was unbearable and the Children's Commissioner has highlighted the torrid time children in B&Bs have endured.

But what happens next is even more worrying. Almost 30% of private renters say they would worry about their housing situation if they were forced to go back into lockdown again.[8] And with those hundreds of thousands of renters now in arrears there is the very real prospect of a new wave of households becoming homeless and even more pressure on an already stretched system.

To avoid an immediate increase in homelessness, the government has had no alternative but to pause evictions and reverse previous harsh cuts to housing benefits. But unless we take action to get to grips with the root causes of the housing emergency it will continue to tighten once the pandemic ends. The human cost of growing numbers in temporary accommodation, and the financial

[1] YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020.
[2] Almost half of working renters only one paycheque away from losing their home, Shelter, 19/09/2020
[3] 23%. YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020.
[4] 51%. YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020.
[5] 25%. YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020.
[6] Statutory homelessness live table, MHCLG
[7] Cashing in: how a shortage of social housing is fuelling a multi-million pound temporary accommodation sector, Shelter, 2020
[8] 29%. YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020.

cost of paying for both temporary accommodation and the housing benefit needed to pay extortionate private rents, is only set to get worse.

To get to grips with the root cause of the housing emergency we must reverse the decades-long trend giving increasing numbers of low income households no option but to rent from private landlords. This trend has put more people who find it difficult to pay into unfit homes they can barely afford. To reverse it we need to address the huge backlog of need for decent, low rent social homes by building at least 90,000 a year for at least a decade. This level of social housebuilding is widely recognised by businesses, academics, charities and builders themselves as what we need to break the back of the housing emergency.

Levelling-up housing

Building social housing isn't only the solution to the housing emergency as we hear about it nationally. It's also how we solve the multiple local housing crises that have been sharpened by the pandemic. Across the country, our failure to invest in social housing has made itself felt in different ways in different places.

Reversing years of underinvestment can begin to unpick each local effect, by providing decent and secure low rent housing where it's needed for those who need it.

Box 1: the role of social housing in levelling-up across the country

Manchester

Manchester's rapid growth has been accompanied by rapid price and rent increases. Without a corresponding growth in social rented homes the existing stock has struggled to meet need. Housing need and homelessness levels are high and low-income households are being pushed out of areas where they have roots. New social rented housing can meet housing need and give low income residents a foothold in the booming local economy.

Wolverhampton

Prior to the pandemic, Wolverhampton had become one of the fastest growing cities in the country, although this growth has been put under threat by the pandemic. It has high current and projected housing need – and as of May this year, 62% of private renters were claiming housing benefits. It desperately needs new social housing, but it hasn't been able to access any grant for social rent, even since it was reintroduced in 2018, due to the '£50 rule' (see below).

Cheshire East

Cheshire East covers a large geographic area different housing markets with a range of affordability challenges, including both Macclesfield and Crewe. There's been a 28% increase in average private rents in the last 5 years.[9] Crewe will be one of the few places that will be directly served by HS2 and is one of the places where new housing and new transport infrastructure need to be planned in tandem. Yet Cheshire East has also not been able to access grant for social rent.

Blackpool

Blackpool is an area of high health, employment and income deprivation, and there are persistent problems of very poor quality private rented housing. One in ten households were on the social housing waiting list in 2019 and if flexibly used, grant for social rent could deliver good quality new homes which the private rented sector can't. Blackpool hasn't been able to access grant for social rent either.

Thanet

The Thanet district covers the Kent seaside towns of Margate, Ramsgate and Broadstairs. There are significant problems with unemployment and low incomes, but private rents have increased 30% in the last five years.[10] Homelessness is on the up, and the number of households in temporary accommodation there rose from 49 in the second quarter of 2015 to 228 in the second quarter of 2018. An undersupply of social rented homes is at the heart of Thanet's housing emergency.

Harrogate

Harrogate is a relatively affluent area in North Yorkshire and has the high rents and house prices to match. These are out of step with lower wages in the village and agricultural economy. The ratio of workplace-based earnings to house prices is over 9:1. Social housing can play an essential role in housing low income people in rural areas and keeping communities and economies alive. But it's difficult to deliver new social housing in the district's rural areas and more social rented homes are being lost through Right to Buy than replaced.

North Kensington

North Kensington is cheek by jowl with some of the most affluent neighbourhoods in the world, but it also struggles with very high housing need and homelessness, which has been in a spotlight since the Grenfell Tower Fire in 2017. House prices and rent are extremely high, but local earnings can be very low. New social housing is needed to help the 2,260 households in temporary accommodation into a permanent home.[11]

[9] Shelter analysis of change in mean weekly private rents 2013/14 to 2018/19. Private rental market statistics 2018-19, Table 2.4, VOA
[10] Shelter analysis of change in mean weekly private rents 2013/14 to 2018/19. Private rental market statistics 2018-19, Table 2.4, VOA
[11] Statutory homelessness in England: January to March 2020, Table A1, MHCLG

So far, the levelling up agenda has had an overwhelming focus on transport infrastructure and private investment. It's been concerned with bringing the rest of the country up to the levels experienced in London and much of the South East. But increasingly, the absence of decent housing for people on low incomes is separating the country into areas for the housing haves and the housing have nots too. Solving the housing emergency means levelling up housing.

The need to level up housing cuts across every region and through every area. The housing emergency isn't just a London and the South East problem, but it isn't just an everywhere else problem either. It is also deeply related to the broader levelling up agenda. Housing investment is essential to make infrastructure investment and private investment work. And as both increase across the Northern Powerhouse and Midlands Engine, investment in social housing is needed alongside it so the deep affordability problems experienced in London and the South East aren't replicated elsewhere.

But in addition to inadequate levels of grant for social housing overall, some areas have found it more difficult to access grant because of where they are. There have been geographical restrictions in the current programme under the '£50 rule'. This means that local authority areas where the gap between average market rents and average social rents is less than £50 a week can't access grant for social housing under the current grant programme (2016-2021). Although a complete ban on grant for these areas has been removed in the latest guidance for the next Affordable Homes Programme (2021-2026) a form of geographical restriction is retained.

The recession; a third emergency

Building a new generation of social rented homes will solve our housing emergency and level-up housing, but the emerging economic crisis threatens our capacity to deliver them. If left unchecked it could set our chances of ending the housing emergency back by years. It also threatens to do untold damage to our economy and to the livelihoods of those who depend on work in construction. The reason is because over recent years our housebuilding industry has become increasingly reliant on building homes to sell on the open market. And in the recession increasing unemployment, dwindling consumer confidence and stunted mortgage lending appetite are forecast to significantly cut consumer demand for homes to buy.

In June, research commissioned by us from Savills illustrated the threat that a drop in consumer demand poses in this recession. They forecast it could lead to:

- As many as 300k new homes being lost in the next five years
- A total of £29.6 billion could be lost from the UK economy
- As many as 116,000 jobs could go this year from the housebuilding industry and up to 128,000 more jobs could be lost in the wider supply chain[12]

[12] Rescue, recovery and reform, Shelter, 2020

Just like this, in past recessions collapsing consumer demand has led to thousands of jobs losses from the housebuilding industry and wider supply chain, and many SME building businesses failing. Once this capacity has been lost, it's taken years to get back to where it was before. It's always previously taken at least a decade for building to return to pre-downturn peaks, if at all.

Our housebuilding capacity is arguably also more vulnerable to a slump in consumer demand now than it has been in previous recessions. Every lever that could possibly be pulled to boost consumer demand is already pulled all the way out, with rock bottom interest rates and subsidised Help to Buy loans. Many affordable homes currently in the pipeline rely on the success of building the very market homes to sell that are threatened by slumping consumer demand, either through Section 106 obligations or the cross-subsidy model. They too could go unbuilt if consumer demand slumps. And the measures that the government has announced so far are also unlikely to address the problem of falling demand. For example, half the affordable housing grant available is planned to be spent on affordable home ownership products, which historically have been hit by exactly the same slump in consumer demand in recessions as full priced homes to buy.

Investing to build

We face three emergencies at once. In the short term, government investment in social housing is what we need to replace lost consumer demand and save our housebuilding capacity from the disastrous consequences of the economic emergency. We all hope that with scientific advances our public health emergency will end soon. But our housing emergency won't end without sustained investment in good quality, truly affordable social rent homes.

Putting the investment in means getting the funding in place now. We propose two rounds of investment:

- First, a New Homes Rescue Fund of £12.2 billion over two years, to significantly ramp up government grant investment as consumer demand for market homes to buy is hit by the recession
- Second, a Levelling-Up Housing Programme of £12.8 billion a year for ten years, to follow the New Homes Rescue fund, and deliver the social rented homes we need to break the back of our housing emergency

The total budget for affordable housing over the next Comprehensive Spending Review period (2021/22-2024/25) would thus be £37.8 billion. By making this investment, over just the period of the next Comprehensive Spending Review we could deliver the following economic benefits. New research from Savills shows that in just four years we could:

- Build 372,600 affordable homes, 173,100 more than current government plans, and all social rented
- House an additional 77,000 homeless households, over and above current government plans
- Support 718,000 job years, 341,000 more than current government plans
- Add £29.5 billion to the economy, £13.8 billion more than current government plans

- Deliver additional social value with a net present value of around £15 billion[13]

Over recent years, several policy changes have been introduced that have successively spread government grant investment in new homes more thinly and made it harder to fund building new social rented homes. Once the funding is in place we need to make sure it can be spent on the social rented homes we need.

People across the country have suffered more because of the state and cost of their home during the pandemic. The economic crisis now threatens to make that worse and to make it harder to solve. We need to save our housebuilding capacity, level-up housing and end our housing emergency. By investing in the social rented homes we need we can build back from the pandemic better.

Recommendations

1. Create a two year New Homes Rescue Fund by accelerating the next Affordable Homes Programme to be spent over two years instead of five

2. Announce a ten year Levelling-Up Housing Programme to deliver at least 90,000 social rent homes a year with £12.8 billion annual spend from 2023/24

   For this purpose, together with the New Homes Rescue Fund, a total of £37.8 billion of capital spending should be made available for affordable housing through the Ministry of Housing, Communities and Local Government in the Comprehensive Spending Review for years 2021/22-2024/25

3. Set an 80% floor on social rent's share of future grant programmes

4. Increase the available grant per new social rented home, lift grant ceilings and overhaul the existing bid assessment criteria so they don't only prioritise the lowest grant schemes

5. Remove geographical restrictions on eligibility for grant for new social housing

6. Remove Affordable Rent from eligibility for future grant

7. Allow for greater flexibility in grant spending while the economic crisis continues, including funding schemes for purchasing distressed market schemes and converting shared ownership to social rent where it contributes to protecting housebuilding capacity

[13] Macroeconomic Benefits of Social Housing Funding, Savills, 2020

PART 1: A PUBLIC HEALTH EMERGENCY DURING A HOUSING EMERGENCY

We were already enduring a chronic housing and homelessness emergency when the coronavirus pandemic hit England. This opening part considers the causes of the housing emergency and how we can build our way out of it.

It had been decades in the making, gradually tightening, with an increasing number of people living homeless, in poor housing or finding it hard to pay the rent. It's happened because we haven't kept up with the need for low rent housing for low income households. This has put growing pressure on the housing benefits bill, which governments have tried to solve by pushing the cost onto low income households. And this has led to an increase in homelessness.

The arrival of a public health emergency which has required people to spend more time inside than ever before has created a toxic mix with this pre-existing housing emergency. It's forced tens of thousands of homeless households to lockdown in temporary accommodation, many in cramped B&Bs or places most people wouldn't want to spend a night with their family, let alone almost every hour of every day for months on end. And now an economic crisis is combining with pre-existing problem of low income households paying high private rents and pushing hundreds of thousands into rent arrears and threatening the future of their housing.

Our failure to get to grips with our housing emergency before the pandemic struck has made it more difficult, disruptive and damaging for millions than it otherwise might. But once the pandemic is over, unless we change track and make a new determination to end our housing emergency, it will still be there. It will continue to tighten and get worse. The solution is building a new generation of decent, low rent social rented housing that low income renters can afford. This isn't only recognised by the weight of academic and professional experience, it's something that the public understand and support.

The pandemic has made the effects of housing emergency worse for those at the sharp end of it. But we can use this moment to decide that as we recover from the pandemic we are going to end our housing emergency too and build back better.

The rise of poor quality, expensive private renting

Figure 1: change in number of households private and social renting over time (000s)[14]

In the twenty years before the pandemic began, England experienced a dramatic growth in the size of its private rented sector. Barely 2 million households rented from a private landlord at the turn of the millennium. By 2018/19, the most recent year figures are available for, the number had more than doubled to 4.5 million.[15]

Although suitable for some, too many of those who were pushed into private renting on low incomes with the least spending power found themselves paying unaffordable rents for poor quality, insecure housing. For those on low incomes, the big driver of the increase in renting from a private landlord was the four decade decline of the option of renting a decent, low rent home from a social landlord, like a council or a housing association (see figure 10). Social rented homes were sold and not replaced, investment dwindled, and in many parts of the country, a social rented tenancy became increasingly difficult to get.

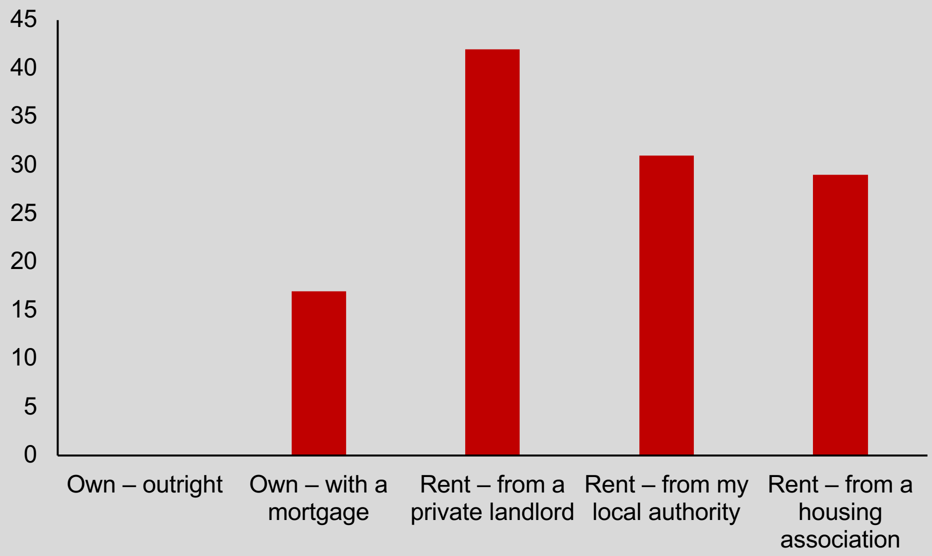
This shift from decent, low cost social rented housing to expensive, poor quality private renting was causing chronic problems before the pandemic began. But at every turn since it has proven absolutely toxic. Poor conditions and crummy homes have meant private renters endured a torrid time through lockdown. Only half (51%) of private renters in England say their home has made them feel safe during the pandemic.[16] And now high housing costs and fundamentally weak

[14] English Housing Survey: Headline Report, 2018/19, MHCLG, 2020
[15] English Housing Survey: Headline Report, 2018/19, MHCLG, 2020
[16] YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020.

protections from eviction have put low income private renters at more risk of losing their home too.

The problem of poor quality private rented housing is well-established. One in four private rented homes doesn't meet the government's Decent Homes Standard, compared to less than one in eight social rented homes.[17] 14% of private rented homes contain at least one Category 1 hazard, which is the most series kind of hazard under government assessment criteria, and poses an immediate risk to the health or safety of the occupant.[18] And large numbers suffer from low lying issues of poor quality, like damp, mould and being difficult to heat. Poor quality has a predictable impact on the value for money private renters feel they're getting compared to others. Across the tenure as a whole, more private renters believe they pay too much for their home given its quality than in any other of the main tenures (see Figure 2).

Figure 2: the proportion of people who say they pay too much for their home given its quality, by tenure[19]



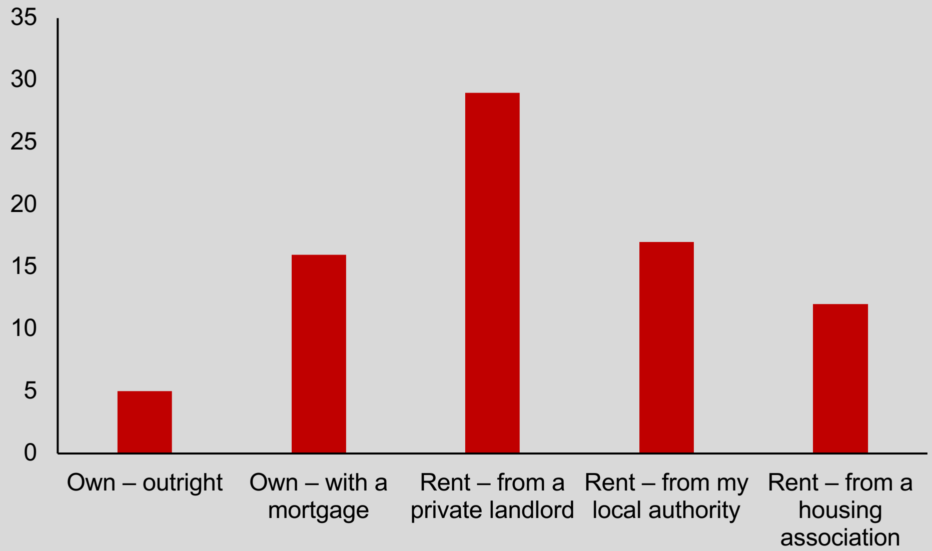
Since the national lockdown began in March, when we were all required to stay in our homes unless absolutely necessary, these poor conditions have taken their toll on private tenants. A higher percentage say they have experienced mould, damp, a leaking roof or windows, condensation, excess cold, a pest infestation or electrical hazards since the start of lockdown than social renters or owner occupiers. In total, 35% of adult private renters – equivalent to 3 million people – say they live with electrical hazards, pests or damp-related issues in their home.

[17] English Housing Survey: Headline Report, 2018/19, MHCLG, 2020
[18] English Housing Survey: Headline Report, 2018/19, MHCLG, 2020
[19] YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020. The percentage results in the survey have been converted into the number of people in a household using the detailed data from 2017-18 English Housing Survey (EHS) – which gives an estimate of population per tenure – uprated in line with the headline 2018-19 EHS results to reflect a further year's population growth.

And 15% say that during the national lockdown they experienced a housing maintenance issue that caused them or someone in their household stress.[20]

The cost of paying the rent has also caused major concern. Private rents are typically about twice average social rents and private renters pay a significantly greater proportion of their household incomes in rent than either social renters or mortgaged owners.[21][22] The burden of high rents makes it harder for households on low incomes to access the space they need and this caused particularly acute problems in lockdown. 29% of private renters said that their amount of indoor space made lockdown harder for them; significantly higher than for owner occupiers or social renters.[23]

Figure 3: percentage of people who said that their total amount of indoor space made lockdown harder for them, by tenure[24]



The combination of pre-existing high private rents with the impact of the pandemic and recession on jobs and earnings has also led to understandable hardship in paying the rent. 19% of adult private tenants are constantly struggling with their rent or are already falling behind, and 11% say they have experienced difficulties paying their rent in the last six months.[25] Since the start of the pandemic more than 300,000 have gone into rent arrears who were keeping up with payments before March.[26]

[20] YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020.
[21] Social housing lettings in England, April 2018 to March 2019, MHCLG, 2019
[22] English Housing Survey: Headline Report, 2018/19, MHCLG, 2020
[23] YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020.
[24] YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020.
[25] YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020.
[26] YouGov survey of 3,698 adults in England, including 598 private renters, online, 18+, weighted, fieldwork conducted 17th August – 19th August 2020

In normal times, the danger for private renters who can't pay is that they face very little protection from eviction, and largely have to rely on their landlord's goodwill to be given time to pay down any arrears that accrue. Since the late 1980s, private renters on Assured Shorthold Tenancies – which are now the overwhelming majority – have been able to be evicted through a Section 21 'no-fault' eviction without any reason having been specified or evidenced, at only two months' notice, outside a fixed term contract.[27] This means that even if a private renter catches up with missed payments and pays down arrears, they still risk being evicted under Section 21. It means that even if they only tell their landlord they have experienced a drop in income, even if they've not yet gone into arrears, they also risk eviction.

By contrast, social renters have much more protection from losing their home if they fall into payment trouble. They can only be evicted for one of a number of specific grounds that their landlord must evidence in court and the main serious rent arrears ground has a built-in opportunity for a tenant to repay arrears between the notice being served and the court hearing. If the tenant is able to get their arrears below two months' by the hearing they can't be evicted on that ground. Similarly, mortgaged owner occupiers receive some protection from repossession from the pre-action protocols that place an obligation on lenders to consider forbearance, leaving private renters – in normal times – uniquely exposed to losing their home if they lose their job.

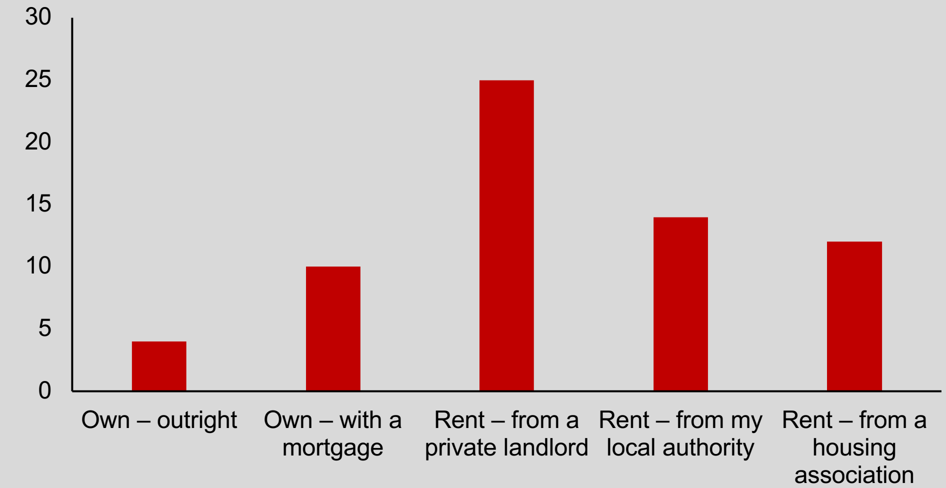
These are not normal times, however, and facing the prospect of a wave of evictions during the pandemic, government has been forced to take extraordinary action to contain the risk. This began with a complete suspension of evictions for three months in March, which was extended in June, and in August notice periods were increased for most evictions to six months. In the context, and given the unique pressures on tenants, these were welcome moves. But they are only billed as temporary measures and until the government changes the law to remove Section 21 – as they have promised to do – the fundamental weakness of private tenants' security from eviction remains. Consequently, more than one in five private renters now fear being asked to leave their home in the next six months, significantly more than in any other tenure.

[27] Section 21, refers to the relevant section of the 1988 Housing Act, which introduced Assured Shorthold Tenancies and the power for landlords to evict without grounds

Figure 4: percentage of people who say that they worry they will be asked to leave their home in the next six months

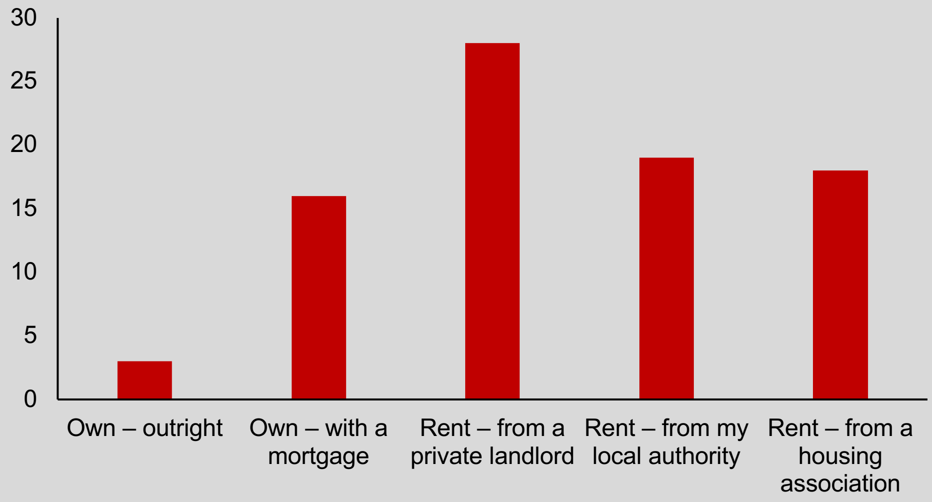
The total effect of poor conditions, high rents and insecurity is that private renters are more likely to say that their housing situation made lockdown difficult to cope than people in any other tenure. A quarter say that it made lockdown harder and even more would worry about their housing situation were there further lockdowns. The same proportion – a quarter of private renters – say that since lockdown their housing situation has had a negative effect on their mental health, which is again the highest of any tenure.[28]

Figure 5: percentage of people who said their housing situation overall made it harder to cope during lockdown, by tenure[29]



[28] YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020.
[29] YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020.

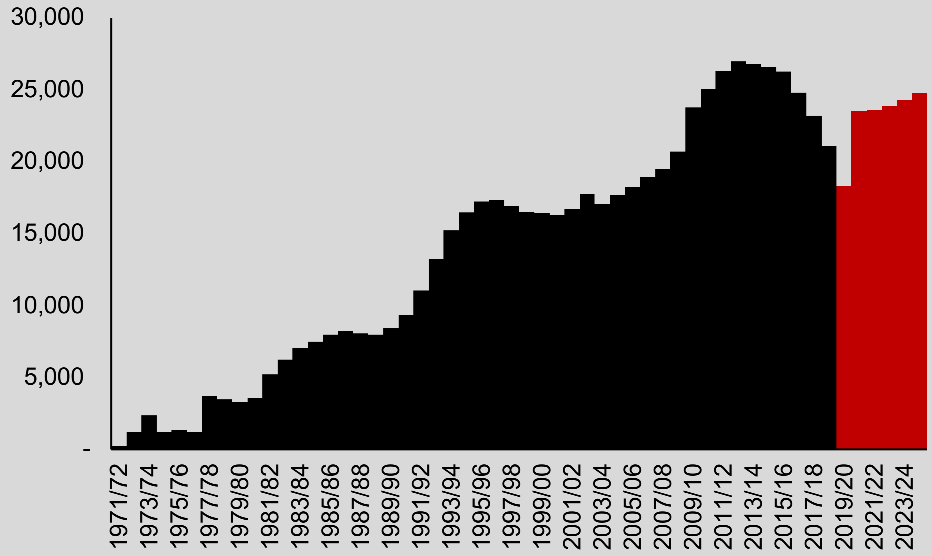
Figure 6: percentage of people who said they would worry about their housing situation if there were further lockdowns[30]



Pressure on housing benefits

As the shift towards expensive private renting has continued, the pressure on the housing benefits bill increased. The failure to address the underlying cause has meant that as the pandemic has continued and a deep recession has begun, we now face a significant increase again in the cost of housing benefits. The amount we spent on housing benefits stood at more than £21 billion in 2018/19 and is forecast to increase to more than £24 billion in 2024/25.[31]

Figure 7: the growth of the housing benefits bill[32]



[30] YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020.
[31] Benefit expenditure and caseload tables 2020, DWP, 2020
[32] Benefit expenditure and caseload tables 2020, DWP, 2020

Instead of addressing the root cause of this increase by increasing the supply of good housing that low income households can afford with lower or no benefits, before the pandemic recent governments had dealt with the rising cost by passing it onto low income tenants. This was done in a couple of ways. In the first place, since 2012 Local Housing Allowance rates – which determine the maximum amount of housing benefits that private tenants can claim – rose more slowly than rents, and were frozen 2016-2020. Secondly, the benefit cap was introduced in 2013 and reduced in 2016 to a £20,000 household limit nationwide and £23,000 in London.

As private rents increased in the years that followed the LHA freeze, a growing number of tenants saw their rent rise above LHA rates, leaving them with a gap between the housing benefits that they received and how much they had to pay to keep their homes. Before 2012, LHA was supposed to cover anything up to the 30% cheapest rents in every rental market. By the time of our impact assessment of the LHA freeze in March this year, we found that:

- In 97% of areas in England, LHA rates didn't cover the cost of renting a two-bedroom home at the bottom 30% of the rental market
- In 78% of areas in England, they didn't cover rents at the bottom 20% of the market
- In a third of areas in England, they didn't even cover rents at the bottom 10%

Consequently, by 2017/18 70% of private renters who claimed LHA on passported benefits faced shortfalls, with an average gap of an eye-watering £113.19 a month.[33]

Likewise, rising private rents led to an increasing number of households finding their housing benefits affected by the new, lower benefit cap, even where their rent wasn't above LHA rates. Even before the pandemic, the lower benefit cap had affected 79,000 households across Great Britain.[34]

The combined effect was that an increasing number of low income households struggled to make ends meet, took on debt and cut back on other essential spending, like food and utilities. 36% of LHA recipients said they had cut back spending on food for themselves or their partner to pay the rent and 28% had cut back on heating.[35] Ultimately, the freeze on Local Housing Allowance contributed to the increasing incidence of evictions from the private rented sector and number of households becoming homeless. Although this solved the short-term headache for the government's budget – at significant human cost – it papered over latent pressure on housing benefits caused by the shortage of genuinely affordable homes, which the pandemic has since exposed.

During the pandemic the cost of housing benefit has been pushed even higher than before. Spending on housing benefits inevitably rises in a recession, as a larger number of people see a reduction in their earnings and need support to

[33] LHA Impact Assessment, Shelter, 2020
[34] Benefit Cap Data to February 2020, DWP, 2020
[35] LHA Impact Assessment, Shelter, 2020

pay their housing costs. By June, three million additional people had already applied for Universal Credit and between February and May the proportion of private renting households across GB who were claiming housing benefits rose from to 30% to 39%.[36][37] However, going through a recession with LHA rates remaining so significantly below market rents would have likely led to even higher rates of arrears than discussed above. As such, in March, at the same time as announcing the furlough scheme, the Chancellor also announced that LHA rates would go back up to the 30th percentile.

We have not yet seen how much our failure to build enough genuinely affordable housing has cost us in increased housing benefit spending in this recession. But the combination of the increase in claimants and the higher cost per claim will have an inevitable and significant impact, which – without action – will endure in the years to come.

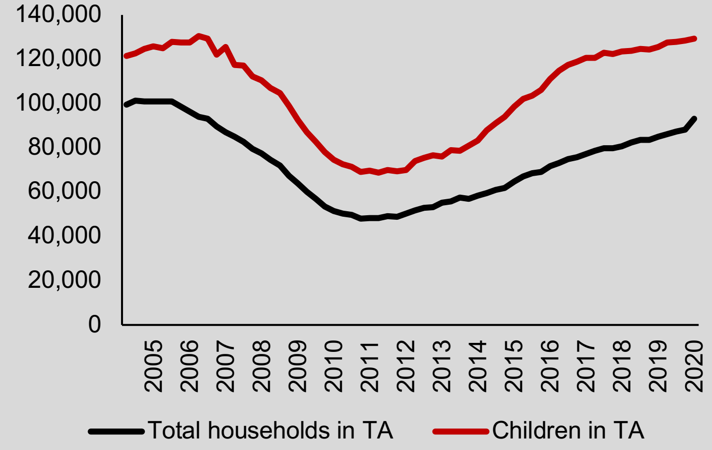
Rising homelessness and rough sleeping

The combined effect of more low income households living in expensive, insecure private renting with inadequate housing benefits led to rising homelessness in the years before the pandemic and all forms grew. As a result, more people have been forced to endure lockdown and the pandemic in cramped, unsuitable temporary accommodation, with an increased risk to their health. 40% of people say that they were worried about homeless people in their area during lockdown.[38] And with many other households already accruing arrears and fearing becoming homeless, the pressure on the homelessness system and cost of providing it look set to rise even further.

The number of households living homeless in temporary accommodation has almost doubled to 93,000 in the last ten years. This now includes 129,000 children – almost matching the previous peak of their number. Rough sleeping has risen even further. Last year it was estimated 141% more people were sleeping rough than in 2010, with more than 4,000 estimated to be out rough on a single night.[39]

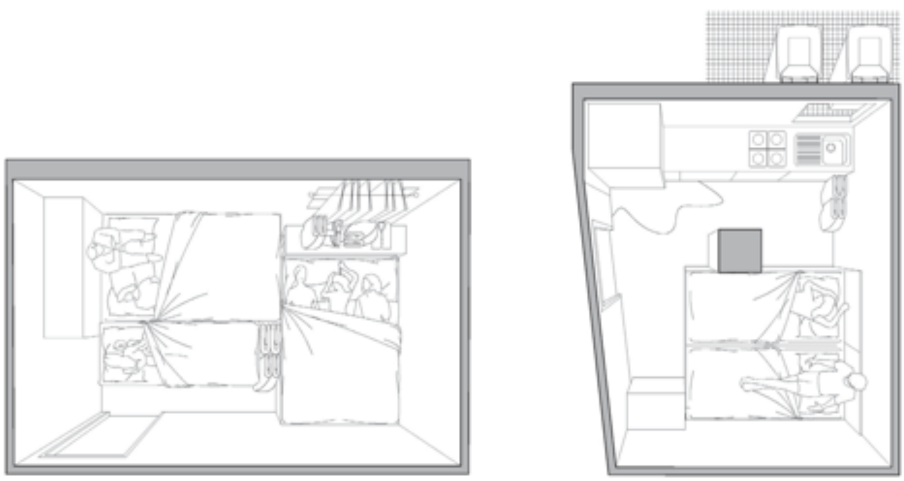
[36] Universal Credit declarations (claims) and advances: management information, DWP, 2020
[37] Renters at risk, Shelter, September 2020
[38] YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020.
[39] Rough sleeping snapshot in England: autumn 2019, MHCLG, 2020

Figure 8: households and children homeless in temporary accommodation[40]



The growing number of people living in temporary accommodation has stretched the available supply thin. Increasingly, it's been sought from ever shadier corners of the market. The result has been rising numbers of households – many families with young children – living in the worst types of temporary accommodation, like B&Bs, with woefully inadequate amounts of space and facilities. Families placed in B&Bs can be forced to share a single room, without their own toilet or cooking facilities. The number of homeless households in B&Bs has quadrupled since the start of 2010 and the number in 'self-contained' accommodation, which can also be a single room with a small kitchenette and tiny ensuite, has increased seven-fold.[41]

Figure 9: examples of temporary accommodation Shelter clients had been placed into[42]



[40] Statutory homelessness live table, MHCLG
[41] Statutory homelessness live table, MHCLG
[42] A vision for social housing, Shelter, 2018

For households living in cramped temporary accommodaiton such as this, the experience of the pandemic and severe lockdown has been unbearable. Already living in housing barely bigger than a prison cell, being unable to leave except for very restricted reasons removed an important coping strategy. In August, the Children's Commissioner published a report describing the impact that living in a B&B over lockdown has had on children. It reported children experiencing additional anxiety and finding it difficult to complete schoolwork, and families having problems with social distancing due to shared facilities and difficulties self-isolating.[43]

Even if homeless households don't have to endure this again in another national lockdown, the threat now is that the recession will increase the number of people who need temporary accommodation. With hundreds of thousands of tenants already having gone into arrears since the pandemic began and an unknown number of livelihoods under threat, it's likely that the pressure on this already straining system will grow.

Many of those who now fear becoming homeless have shared their stories with us:

> *I am now in arrears for my rent and utilities. I am terrified that I'll lose my home through eviction. I'm scared I won't be able to afford to pay any rent in the future, let alone the arrears. It's going to blemish my credit and my renting record will keep me from being able to rent elsewhere. I'm literally ill with worry about becoming homeless, losing my beloved pets and all my personal property. – Jill, London*[44]

As many councils already struggle to find decent accommodation for existing homeless households, this won't only increase the risk of homeless families getting put in unsuitable places. It will also add to temporary accommodation's growing cost. The shortage of long-term temporary accommodation has led to a rising dependence on expensive, short-term places that charge a nightly rate. This had already driven the annual cost to councils to £1.1 billion before the pandemic began, up 86% since 2012/13.[45][46] The recession now risks driving it higher still.

The large number of people sleeping rough meant that more government action was needed than otherwise would have been to meet the requirement for people to stay indoors unless absolutely necessary. At the end of March the government launched the 'Everyone In' initiative to provide emergency accommodation for everyone sleeping rough or at risk of it. Despite the official estimate that there were only 4,266 rough sleepers a night last year in England, almost 15,000 rough

[43] No way out: children stuck in B&Bs during lockdown, Children's Commissioner, 2020
[44] Home Truths, Shelter, 2020
[45] Cashing in: how a shortage of social housing is fuelling a multi-million pound temporary accommodation sector, Shelter, 2020
[46] Local authority revenue expenditure and financing England, Revenue outturn housing services, MHCLG

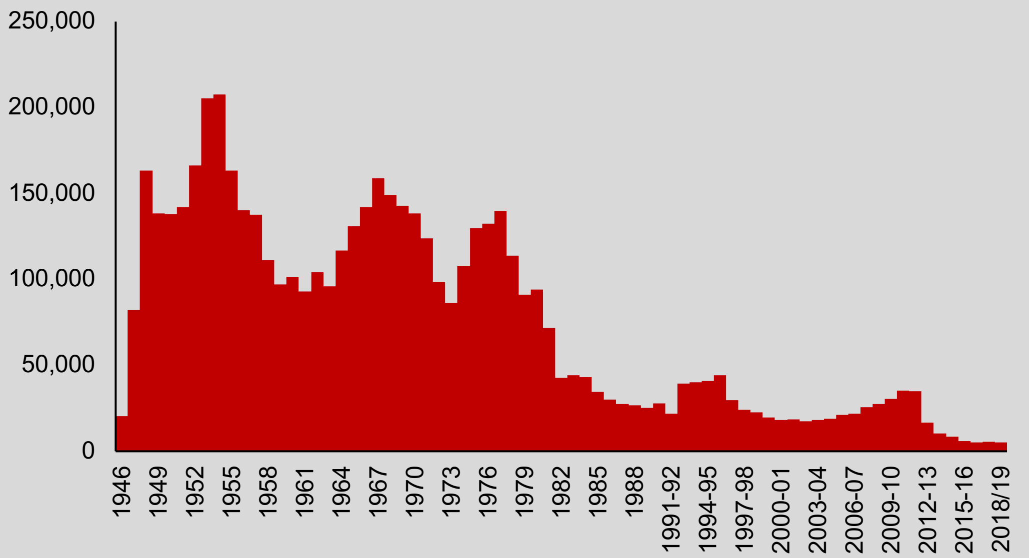
sleepers or people at risk of rough sleeping had been provided with emergency accommodation by May.[47]

The outlook for rough sleeping in the coming recession is mixed. Money has been allocated to deliver 3,300 specific new homes to accommodate rough sleepers over the next year, and a total of 6,000 overall.[48] But without a solution to the broader housing emergency, the growth of low income, insecure private renting, the pressure on the benefits bill and on the homelessness safety net, the risk is that more people will fall through the gaps.

We need to build more social rented homes

The pandemic and the recession are making the impact of our housing emergency even more severe. But once they are over, we will still be in a chronic housing emergency unless we get to grips with the root cause. In recent years, since our Social Housing Commission in 2018 we have written extensively about what that root cause is: our shortage of genuinely affordable, decent social rented homes. The shortage is decades in the making, and has arisen because over time we simply haven't built enough.

Figure 10: new build social rented homes completed since 1946[49]



As the discrepancy between the social homes we need and the number being built has widened, the number of people waiting for social housing has grown. Since 2011, eligibility criteria for social housing have been tightened and national waiting lists have been cut far beyond the number who have been housed. But

[47] Coronavirus (COVID-19) emergency accommodation survey data: May 2020, MHCLG
[48] 6,000 new supported homes as part of landmark commitment to end rough sleeping, MHCLG, 24/05/2020
[49] Data since 1991/92:Live Table 1009, MHCLG; data before 1991: Live Table 244, MHCLG After 1991/92

even still, the 1.2 million people on waiting lists for a social home today would, if lined up in a queue, stretch from London to Istanbul.[50]

Such is the backlog of unbuilt new social homes that we need to ramp up social housebuilding on a significant scale. Last year we delivered only 6,388 new social rented homes across the whole country.[51] We need to be building at least 90,000 a year for at least a decade (see Box 2). Although significantly more than we are building now, it is still way below the average built in the forties, fifties, sixties and seventies, when the country lived through multiple significant hardships.

Box 2: support for building at least 90,000 social rented homes a year

There is now widespread recognition that England needs to build at least 90,000 social rented homes a year over a sustained period to solve our long-standing, national housing emergency.

The level of social rented homes needed is based on robust academic research looking at national housing need by experts at Heriot Watt University. It has won major support across a wide range of sectors and businesses, including:[52]

- The Affordable Housing Commission, chaired by crossbench peer Lord Best and including representatives from the development industry (Savills, British Property Federation, House Builders Federation), housing associations, local government, academics and think tanks (Resolution Foundation, CaCHE)[53]
- The cross-party Housing, Communities and Local Government Select Committee[54]
- The End Homelessness Now coalition of homelessness charities, made up of Crisis, Centrepoint, DePaul, Homeless Link, St. Mungo's and Shelter[55]
- The National Housing Federation body of housing associations[56]

Building at this scale will give low income tenants a viable alternative to expensive, poor quality and insecure private renting. In addition to dramatically improving the homes people live in, relieving the stress that paying private rents places on family budgets and tackling the root causes of growing homelessness, up front investment in new homes will reduce the day-to-day pressure on the housing benefits bill. It will deliver savings to the public purse in a way that can be sustained long-term.[57]

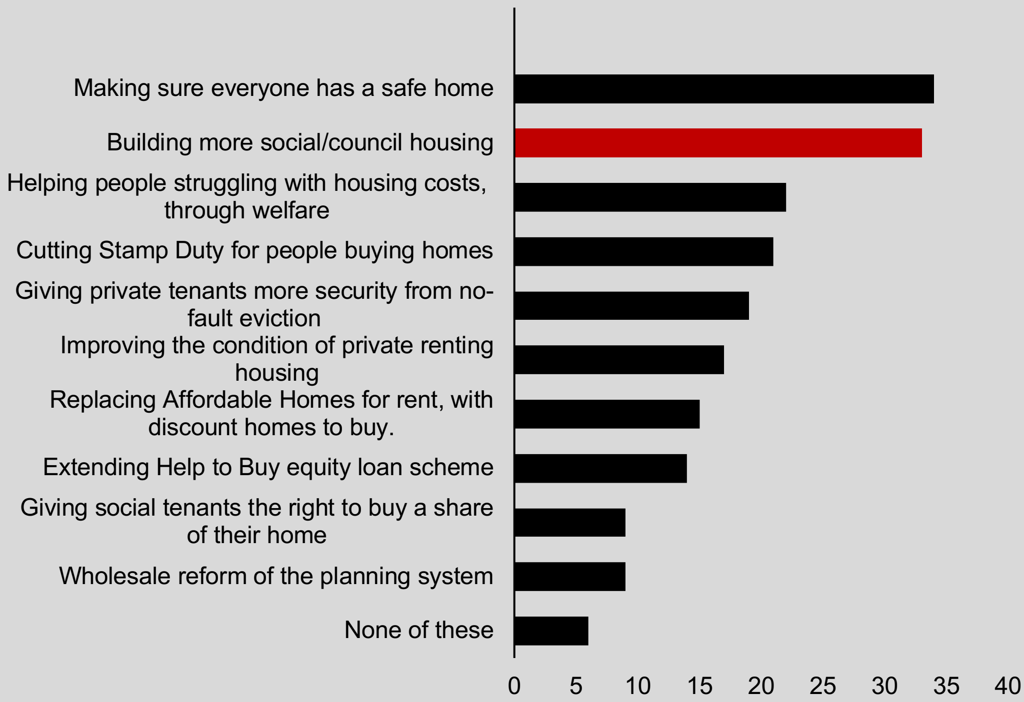
Building this number of homes will also ease some of the problems within the existing overstretched social stock. For example, the shortage of social rented

[50] Live Table 244, MHCLG
[51] Live Table 1000C, MHCLG
[52] Housing supply requirements across Great Britain for low-income households and homeless people, Glen Bramley, Heriot-Watt University, 2018
[53] Making Housing Affordable Again: Rebalancing the Nation's Housing System, Affordable Housing Commission, 2020
[54] Building more social housing, House of Commons Housing, Communities and Local Government Select Committee, 2020
[55] End Homelessness Now Manifesto, 2019
[56] Capital Grant Required to Meet Social Housing Need in England 2021-2031, NHF, 2019
[57] Increasing Investment in Social Housing, Capital Economics, 2019

homes has made it much more difficult to tackle overcrowding in social housing as well as helping people downsize from larger homes.

Neither is it only overwhelming professional and academic opinion that recognises that we need to build more social homes to solve our housing emergency either. It's recognised by the public too. According to new research by YouGov, of the policy options proposed for solving the housing crisis, building more social housing polled within the margin of error of the top choice (making sure everyone has a safe home).[58] All the other options, which included current or recent government policies like planning reform, a Stamp Duty cut and Right to Buy Shared Ownership, came well behind.

Figure 11: 'Which, if any, of the following do you think should be the biggest housing priorities in your local area?' (respondents were asked to choose up to three)[59]



It's only by building new social rented homes at scale, as supported by professional and academic opinion and the general public, that we can turn the needle on our housing emergency, cut the housing benefits bill and end homelessness. But just as the pandemic and recession have sharpened the need for new social rented homes, they also threaten to set back our capacity to deliver them.

[58] YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020.
[59] YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020.

PART 2 – THE ECONOMIC EMERGENCY

We now face the worst recession since records began. This part considers how he chronic housing crisis, at first exacerbated by an acute health crisis, now stands to be deepened and transformed by an unparalleled economic crisis.

The most immediate impact will be more people finding it hard to pay their rent or mortgage and being pushed towards eviction and repossession. But the recession will also hit the housebuilding industry, reducing the contribution it makes to GDP and threatening our capacity to build the social homes we need in the years to come.

In previous recessions private housebuilding has been hit hard by collapsing consumer demand for homes to buy. SME housebuilders have gone bust and hundreds of thousands of construction workers have lost their job. It has never taken less than a decade to recover from a shock to consumer demand of this kind – and if it happens again it could set back our capacity to build the social homes we need by years.

But we are now more vulnerable to a serious shock to consumer demand than we have been in previous recessions as well. Previous Savills' research suggests we could lose as many as 300k new homes over the next five years. More of our housebuilding output depends on high demand for homes to buy than in previous recessions with fewer delivered through alternative business models. And the policy initiatives that the government is looking at to support our housebuilding capacity will fail to address the critical issue of falling consumer demand.

We need a different approach. Fortunately, investing more in social rented housing isn't only needed to start the work of ending our homelessness emergency, it can save critical housebuilding capacity and support the economy too.

The threat to people's homes

The recession will push more people into payment difficulties and make it harder for them to pay their housing costs. At the time of writing, the full effect had not been felt. The government's furlough scheme, officially called the Coronavirus 'Jobs Retention Scheme', has delayed the full impact of the recession on jobs and household incomes and has not yet been withdrawn. It is due to end on 31st October 2020. The new 6-month 'Job Support Scheme' will take over from 1st November, aimed at supporting only "viable" jobs through a less generous grant offer - capped at just under £700 a month.[60] Commentators have disagreed over the extent to which the new measures will stem the flow of winter job losses, but the Chancellor has conceded that lay-offs will happen, warning that the government "can't save every job".[61]

Even with the furlough scheme in place, we have already seen many households struggle to pay their housing costs. Since the start of the pandemic more than 300,000 renters have gone into rent arrears who were keeping up with payments before March.[62] Although Local Housing Allowance rates have been increased to the thirtieth percentile, there are now well over 30% of private renting households who are claiming housing benefits. 39% of households are chasing the 30% cheapest homes. As such, it's practically impossible for every renter who needs help finding a home their housing benefits will fully cover.[63][64]

Mortgaged owner occupiers are also at risk of falling into payment trouble and losing their homes. Despite interest rates remaining at a historic low, over two million borrowers asked their lender for a mortgage payment holiday at its peak and as of mid-August, more than a million were still on a payment holiday.[65] The offer of payments holidays was extended in June and is due to come to an end at the same time as the original furlough scheme on 31st October. With unemployment expected to rise higher than it did during the Global Financial Crisis when the scheme ends, it's unknown how many of these already struggling borrowers will go into arrears.

For mortgaged households who do get into payment difficulty, the level of support has also been markedly reduced since the last crisis. Support for Mortgage Interest (SMI) – the only state benefit for help with mortgage payments – has been turned into a loan, meaning borrowers can only get government support by going further into debt. And that's if they're able to access SMI at all. The eligibility criteria for SMI have always been notoriously tight, but the waiting period before payments begin has increased since the Global Financial Crisis from 13 weeks to nine months.

If we had tackled the country's chronic shortage of affordable social housing before now, we would be in a much stronger position to confront the recession and payment troubles that people will face in the crisis. Fewer households on low incomes would have entered the recession paying high private rents with little to protect them from losing their homes. More low income households would have had a decent home with a social rent they can afford. And for those who fall through the gaps over the coming months and become homeless, there would have been a larger stock of decent and affordable housing where they could find

[60] Chancellor outlines Winter Economy Plan, HM Treasury, 24/09/2020
[61] Sunak warned winter economy plan not enough to stop wave of job losses, The Guardian, 24/09/2020
[62] YouGov survey of 3,698 adults in England, including 598 private renters, online, 18+, weighted, fieldwork conducted 17th August – 19th August 2020
[63] Local Housing Allowance: increased due to Covid-19, Savills 05/06/2020
[64] Renters at risk, Shelter, September 2020
[65] Arrears and possessions, UK Finance, 13/08/2020

a permanent home. We failed to fix while the roof while the sun was shining, and the country now stand to pay a high price.

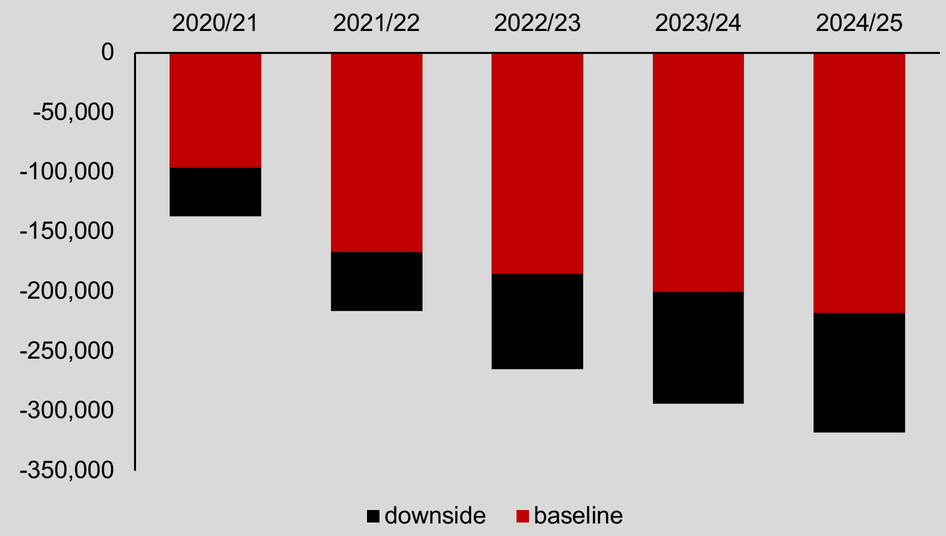
Yet, with the only way to overcome the shortage and tackle our underlying housing crisis dramatically increasing social housebuilding, the recession also threatens the delivery of new homes and the capacity of our housebuilding industry to help build our way out.

Housebuilding is set to slump and worsen the recession

Research by Shelter for Savills earlier in the summer illustrated the scale of the crisis that now confronts housebuilding. It suggested that the pandemic and recession will lead to a significant slump and loss of capacity in the construction industry and supply chain if no remedial action is taken, forecasting that:

- As many as 300k new homes could be lost in the next five years
- A total of £29.6 billion could be lost from the UK economy
- As many as 116,000 jobs could go this year from the housebuilding industry and up to 128,000 more jobs could be lost in the wider supply chain
- As few as 3,500 social rented homes could be built this year – the lowest number since the tenure's creation[66]

Figure 12: the cumulative loss of homes Savills project over the next five years[67]



Although this outcome would be bad, the full impact on housebuilding is likely to be even worse than Savills' forecast. This is because the economic conditions have deteriorated significantly since it was completed. The expected impact on UK GDP of the recession has worsened from a -8.3% contraction to a -9.9% contraction this year.[68][69] The recovery is also expected to take longer and instead

[66] Impact of Covid-19 on social housing supply and residential construction, Savills, 2020
[67] Rescue, recovery and reform, Shelter, 2020
[68] Forecasts for the UK economy: a comparison of independent forecasts, HMT, June 2020
[69] Forecasts for the UK economy: a comparison of independent forecasts, HMT, August 2020

of the sharp bounce-back initially predicted, the Bank of England now expects that GDP won't return to its pre-pandemic levels until the end of 2021.[70] There are also risks that could push recovery even further down the road with the reintroduction of local lockdowns a continuing possibility and the outcome of EU trade negotiations a potential source of further economic turbulence.

As the economic weather has got worse, the outlook for future housebuilding, its contribution to GDP and the impact on construction jobs has got worst too. At the very least, we should expect the outcome to be closer to Savills' bad case scenario than their baseline view.

The initial cause of this shock to supply was forecast to be the loss of time working on site during lockdown and lost productivity as a result of social distancing. But the lion's share was accounted to the recession leading to a fall in demand for new homes to buy on the open market.

Box 3: How dropping demand for homes to buy drives a collapse in market housebuilding

- Increasing unemployment reduces the number of households who can afford a mortgage to buy a new home
- Consumer confidence is hit. Worries about personal job security and uncertainty about future prices means fewer households want to take on new mortgage debt
- Mortgage companies become more risk averse and restrict lending. Rising unemployment and job losses increase the risk that potential new borrowers will fall into trouble. Lenders cut back on riskier loans, like high loan-to-value mortgages
- Consumer demand for buying homes drops. The majority of UK buyers still rely on a mortgage to buy their home, so a fall in new mortgage approvals is major blow to demand for new homes
- Housing transactions fall. With fewer people able to buy, there are fewer sales. Distressed sellers are forced to accept lower prices. Market prices fall
- New homes for sale on the open market take longer to sell at their pre-crisis prices. With most of their costs already fixed (e.g. land price, build costs) builders who cut prices must sell at a reduced profit or loss. Big housebuilders – who can afford to – sell at a slower rate or stop and wait for the market to rebound
- Development finance dries up. Business lenders become more risk averse and SME builders don't get enough income from their last development to fund their next
- Housebuilders slow down or stop new development. With new homes either not selling or selling at a loss and finance tight, the pipeline of new development is switched off. Sites early in the development process stall
- Job losses. As building activity drops there's less demand for construction workers. Widespread self-employment and casual employment practices means this rapidly translates into putting construction workers out of work

[70] Bank of England tempers forecasts for UK economic rebound, Financial Times, 06/08/2020

- Businesses fail. Without the reserves of the large developers, reduced income from sales receipts and contract work, and unable to access more debt, SME builders become illiquid and are pushed towards failure. This feeds back into and worsens the health of the economy as a whole

A slow-down in demand for buying homes has a major impact on total housebuilding. This is because our housebuilding industry overwhelmingly builds homes to sell on the open market.

More than 80% of the homes built in 2019 were built by private enterprise, who predominantly build for market sale.[71] Their business model is overwhelmingly speculative development. This means they effectively bet on what future house prices will be when they bid for land to build on. When demand drops, those bets turn bad and the model seizes up (see Box 4). And because such an overwhelming amount of our new housebuilding is delivered through the model, the overwhelming amount of our housebuilding seizes up too.

Much of our new affordable housing supply has also become dependent on speculative development, loading more hopes for new homes onto those bets on future prices.

This is because a lot of affordable homes now depend on cross subsidy – when housing associations use profits from selling market homes to pay for affordable homes – or on so-called Section 106 planning obligations. Section 106 obligations are used by councils to require a proportion of the homes that speculative developers build to be affordable. Roughly half our new affordable homes were delivered through Section 106 last year, and ten times as many social rented homes were delivered through Section 106 as government grants.[72]

When the speculative development model seizes up, the development of affordable homes that are reliant on cross-subsidy or Section 106 also stops, making the initial impact even deeper. This is why Savills forecast that over the coming years the number of new social rented homes being built will fall even lower than their already pathetic levels. The 3,500 social rented homes they forecast will be built across the whole country this year is less than the amount we need to be building every single fortnight to keep up with need.

Box 4: how has falling demand for homes to buy led to previous housebuilding collapses?

Every recession is different. But England's housebuilding system has consistently proven itself not to be resilient to contracting demand for homes to buy in previous downturns. Without fundamental reform – which has been absent since the last recession – there is no reason to expect it to perform better in the next.

[71] Live Table 244, MHCLG
[72] Impact of Covid-19 on social housing supply and residential construction, Savills, 2020

Global Financial Crisis

The credit crunch led to a significant withdrawal of mortgage lending, cutting off demand for homes to buy. Mortgage approvals fell by 72% in just more than a year from Q3 2007, contributing to a 61% collapse in housing transactions.[73] House prices fell by 20% in 16 months.[74] More than a third of SME housebuilders left the industry and private housebuilding starts collapsed by almost 60% between 2007 and 2009.[75][76]

Late 1980s / early 1990s

Increasing interest rates from 1988 hiked the cost of owning a home, with the Bank of England base rate rising to just below 15% in 1990, and squashed demand for home purchases. Transactions continued to fall as the country went into recession and unemployment rose, adding to the loss of demand for home purchases and leading to increasing arrears and repossessions, which spiked in 1992 and 1991 respectively.[77] Between 1988 and 1992 private housing starts fell by almost half.[78]

Late 1970s / early 1980s

In an attempt to control inflation, interest rates are increased to a record high 17% in 1979. A consequent increase in the exchange rate contributed to falling exports and rising unemployment, which peaked at almost 12% in 1984, both of which hit demand for home ownership.[79] The net change in outstanding mortgage lending fell, transactions fell by 14% and private housing starts fell by almost 40% from 1978 to 1980.[80][81]

We are seeing the first effects

As with the impact on evictions and repossessions, at the time of writing the full impact of the recession on demand for market homes and housebuilding has not been felt. Nevertheless, there are some early signs that businesses are preparing for a downturn in demand, and consequently construction and housebuilding.

Lending has already contracted

Between the beginning of March and the end of July the number of first time buyer mortgage products on the market halved from 2,681 to 1,363. There has been an almost complete withdrawal from offering the riskiest, high loan-to-value (LTV) products. Less than a tenth of the 90% LTV mortgage offers available in

[73] Housing Downturns: 2007-13 downturn, Built Place, retrieved 11/09/2020
[74] The Global Financial Crisis: 10 years on, Savills, 2017
[75] Reversing the decline of small housebuilders: Reinvigorating entrepreneurialism and building more homes, HBF, 2016
[76] Live Table 244, MHCLG
[77] Housing Downturns: 1989-95 downturn, Built Place, (retrieved 11/09/2020)
[78] Live Table 244, MHCLG
[79] Housing Downturns: 1979-82 downturn, Built Place, (retrieved 11/09/2020)
[80] Housing Downturns: 1979-82 downturn, Built Place, (retrieved 11/09/2020)
[81] Live Table 244, MHCLG

January were still available by the end of June. [82] And no major lenders are now offering 95% LTV loans for first time buyers. The handful of other lenders willing to offer 95% LTV mortgages are doing it with strings attached, e.g. with the condition of a charge being placed on a family member's home.[83]

Construction firms have already started shedding staff

Despite the government's furlough scheme, employment in construction fell by 83,000 in the second quarter of the year – the largest drop for a decade – according to the Office for National Statistics. By the end of the June, almost 125,000 fewer people were employed in construction than at the same time the year before.[84] This reflects job cuts that many household names in the construction industry supply chain have already implemented, whether tier one contractors like Kier, Laing O'Rourke, Mace and Wates, suppliers like builders' merchants Travis Perkins or manufacturers like brick manufacturer Ibstock. [85] At 11,000, the number of job vacancies advertised in the construction sector May-July were also at levels not seen since early 2012, when the sector was still feeling the effects of the Global Financial Crisis.

Large housebuilders are already looking to take advantage of lower land prices

Falls in house prices are accompanied by much larger drops in residential land values. Despite talking up the strength of the current housing market (see Box 5) some big housebuilders have put aside cash to take advantage of bargain land prices in the event of housing market slump. In June, Taylor Wimpey issued new shares to raise £500 million, explicitly saying the cash was for land acquisitions at cut prices.[86] Berkeley Group was less explicit, but in deferring returning £455 million in surplus capital to shareholders 'to provide the company with the flexibility to invest… in incremental new land…' its intentions appear similar.[87]

Leading indicators already suggest worse is still to come

Office for National Statistics data on new orders for all new housing were down -49% April to June 2020, the sharpest quarterly fall in the measure on record. The new orders statistics are compiled using data from early in the development process including planning applications, so they give an indication of the pipeline of future housebuilding projects. If the pipeline dries up, fewer new homes will be started or finished subsequently. Leading indicators for construction employment are similarly bleak. The Chartered Institute of Personnel and Development quarterly Labour Market Outlook suggested a net 10% of construction employers expected to reduce staff in the next three months.

[82] Mortgage lenders begin return to 90% LTV, FT Advisor, 14/07/2020
[83] The lowest first-time buyer rates available today, Moneyfacts.co.uk, 29/07/2020 (retrieved 11/09/2020)
[84] EMP13: Employment by industry, ONS, August 2020
[85] Construction job cuts reach 7,000 as coronavirus impact hits sector, New Civil Engineer, 23/07/2020
[86] Taylor Wimpey raises half a billion to snap up cut-price land, Construction News, 18/06/2020
[87] Press release: Berkeley Group Holdings PLC Final Results Announcement, Berkeley Group, 17/06/2020 (retrieved 11/09/2020)

Box 5: What about ‘pent up’ demand in the housing market and the Stamp Duty cut?

The housing market has been described as currently ‘defying gravity’ because the effects of the recession have not yet been fully reflected in consumer confidence or prices.[88]

Indeed, given reports of rising market activity after lockdown, some may query whether Savills’ forecast of a slowdown in demand now paints an overly pessimistic picture. House prices have since risen to their highest level on record according to both Nationwide and Halifax.[89][90] The July 2020 Royal Institute of Chartered Surveyors’ (RICS) UK Residential Survey found that net +75% of their members reported a rise in buyers over the month and +59% instructions, following on from similar rises in June.[91] The equivalent August survey reported particularly strong expected demand for homes with gardens and more space.[92] The big housebuilders have also said that demand for their new homes is strong. One of the biggest, Taylor Wimpey have said that they have seen a ‘very high level of demand’ and a ‘healthy increase in reservations.’[93] Furthermore, as the temporary cut in Stamp Duty was made after Savills completed their forecast, the policy change is not taken into account. Some may question whether cutting Stamp Duty might have been enough to avert a significant drop in demand and change the direction of gravity in the market entirely.

However, much of the uptick in transactions can be explained by the release of demand that was ‘pent up’ over the course of lockdown by the restrictions on buying and selling.[94] During lockdown home viewings and moves were completely suspended for seven weeks. New mortgage approvals all but stopped.[95] This meant that many who had wanted or needed to move were frustrated from doing so even if they could afford it. These restrictions – not economic uncertainty – were the main reason that housing transactions fell so far between February and April, by almost 60%.[96] Even once the market officially reopened, as with all other sectors of the economy, it has taken time for market functions to return to normal. Consequently, despite the reports of growing demand, transactions in July were still almost 30% down on the previous year. And there is still a long way to go if the level of ‘pent up’ demand is to measure up to pre-pandemic market activity. March to July there were still more than 170k fewer housing transactions than over the same period in 2019.[97]

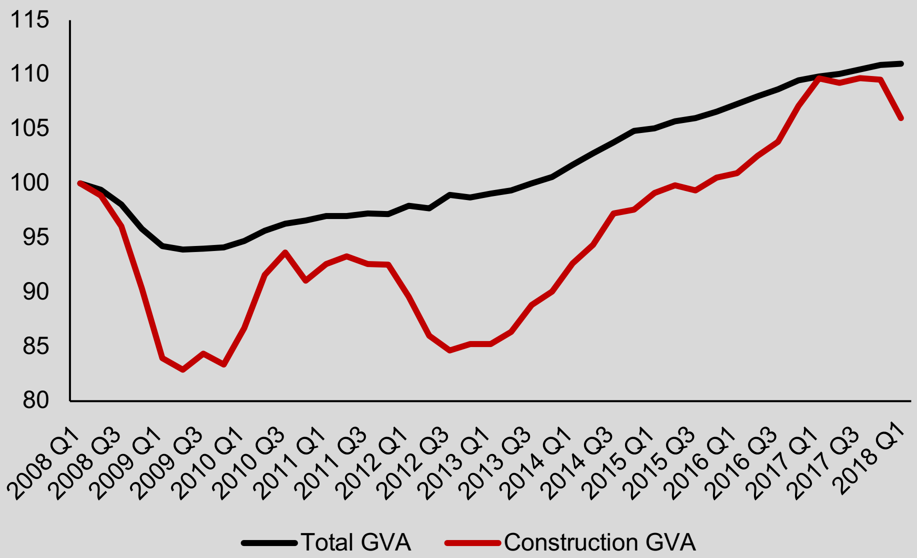
[88] Britain’s mysteriously robust housing market, Financial Times 20/08/2020
[89] House Price Index, Nationwide, August 2020
[90] House Price Index, Halifax, 07/09/2020
[91] Housing market rebounds but concern over the economy continues, RICS, 2020
[92] Sales market continues to show strong momentum with house price inflation now accelerating sharply, RICS, 2020
[93] House builder Taylor Wimpey reports 'high level of demand' after reopening most show homes in England, Yorkshire Post 05/06/2020
[94] JLL forecasts UK house prices to fall by 8% in 2020, JLL, 21/05/2020
[95] The Resolution Foundation Housing Outlook Q3 2020, Resolution Foundation, 2020
[96] Monthly property transactions completed in the UK with value of £40,000 or above, HMRC, 2020
[97] Monthly property transactions completed in the UK with value of £40,000 or above, HMRC, 2020

This deficit might not be made up at all and the uptick in demand since the end of lockdown could only be temporary. The same RICS surveys that reported growing demand over recent months reported majority views that sales would fall over the year.[98] The expected increase in enquiries for homes with gardens came with a similar reduction in expected demand homes in other areas.[99] The cut in Stamp Duty is also likely to have a temporary effect. In previous recessions, temporarily cutting Stamp Duty has brought forward transaction activity instead of creating transaction activity, leading to a cliff-edge at the end of the temporary cut.[100]

From slump to sluggish recovery

As well as being notoriously frail in a downturn, the housebuilding industry is slower than other parts of the economy to recover from shocks. During the Global Financial Crisis, construction's contribution to GDP fell much further than average for all sectors and it took more than two years longer for construction GVA to return to its pre-recession level. The value of housebuilding new orders followed a similar path to construction as a whole and it took until 2016 to return to 2007 levels.[101]

Figure 13: index of change in Construction GVA compared to all sectors following the Global Financial Crisis[102]

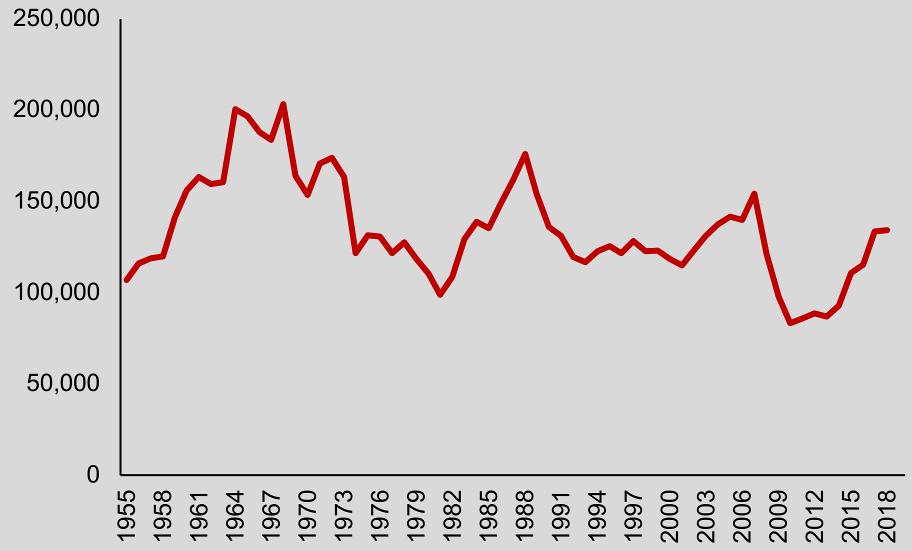


Neither was this a freakishly slow recovery for housebuilding by historical standards. It has consistently taken at least a decade for new private housing

[98] Housing market rebounds but concern over the economy continues, RICS, 2020
[99] Sales market continues to show strong momentum with house price inflation now accelerating sharply, RICS, 2020
[100] Institutional Responses to the UK Housing Market Recession. Urban Studies, 33(2), 337-351, Stephens, M., 1996
[101] Construction statistics Great Britain: 2017, ONS, 2018
[102] GDP output approach – low-level aggregates, ONS, 2020

completions to get to their next peak following a decline. Furthermore, each peak has ratcheted down and been lower than the previous.

Figure 14: private housing completions since 1955[103]



Several reasons are given for housebuilding's slow pace to get back to its feet. Demand for homes to buy typically returns slowly as consumers and mortgage lenders remain cautious. And while the pipeline of new housebuilding can be turned off quickly, the lead-in times for restarting development are long.

The loss of housebuilding capacity that occurs through the process of a crash also constrains it from bouncing back quickly. Casual employment practices and a high prevalence of self-employment and sub-contracting can mean skilled construction workers are rapidly lost from the industry. This loss of skills takes time to replace and even before we entered the pandemic there were concerns that those lost in the previous recession had not been replaced.[104]

Furthermore, the loss of SME builders has contributed to the market becoming more concentrated in the hands of a small number of big housebuilders. These 'volume builders' have the capacity to slow housing output to a dribble to match low market absorption rates.[105] They are able to weather and even take advantage of recessions, for example by buying developable land at cut prices (see above), raising the barriers for new market entrants when demand returns.

There remains some hope that, despite the depth of the current recession, as it was caused by a public health emergency and response, the economy can bounce back once the pandemic is under control. The fear for housebuilding is that it has always lagged economic recovery before. Even if economic growth returns quickly, history suggests demand will return more slowly to the home

[103] Live Table 244, MHCLG
[104] The Farmer Review of the UK Construction Labour Model, Mark Farmer, 2016
[105] Market absorption rates is how quickly homes will be bought in a local area at any given price. Absorption rates were discussed significantly by Sir Oliver Letwin's Independent Review of Build-out, 2018

purchase market and that it will take time to replace lost capacity and skills and that new entrants will find it hard to enter a cornered land market.

These constraints on housebuilding growth will not only affect our ability to build market homes, but if the recession is left to take its toll they will also make it harder to build the social homes we need and address our underlying housing emergency.

Housebuilding is more vulnerable now

Our failure to build sufficient social housing has left us more vulnerable to the effects of the recession than before. Not having maintained – let alone added to – our stock of decent rented housing that people on low incomes can afford means that more are now facing the recession paying high private rents and at risk of becoming homeless.

It has taken decades of underinvestment for us to get to this point, but there are also key differences in the current economic crisis that make housebuilding more vulnerable to a drop in demand for homes to buy now than it was in previous recessions.

Literally everything that government might try to do to stimulate demand for homes to buy – super low interest rates, interest free loans – was already being done before the pandemic started. There is no further room for manoeuvre on boosting demand for homes to buy – only on increasing investment in social rented homes.

Affordable housing supply is more exposed to the slump than before

Our supply of affordable housing today is much more vulnerable to a downturn in the housing market than it has been previously. This is because much less is delivered through direct government investment and much more rides on the coattails of speculative development of homes to buy.

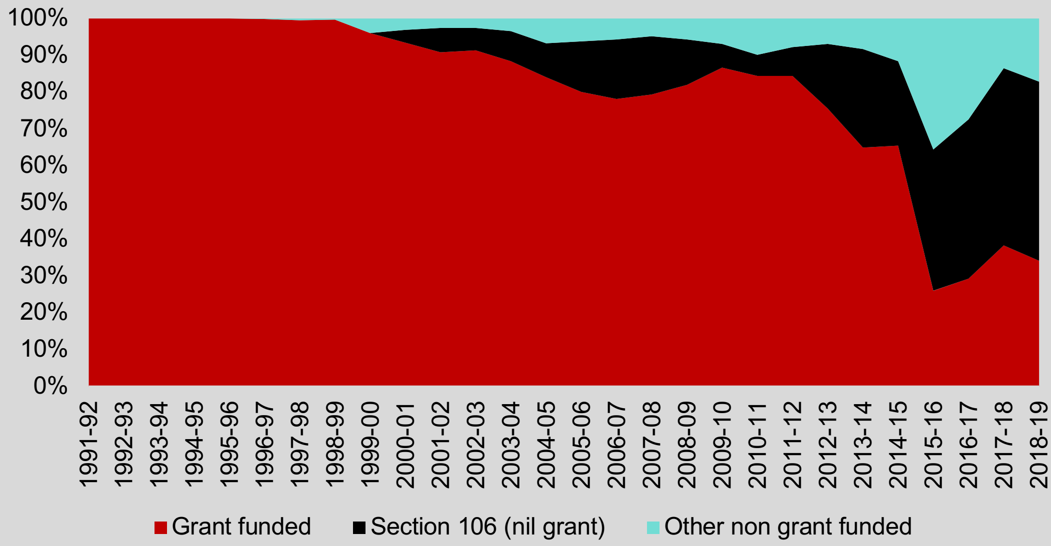
As discussed earlier, a significant number of affordable homes are now delivered through cross-subsidy from the sales of market homes or Section 106 obligations on market developments. If those market homes aren't sold or developments don't go ahead, then the affordable homes don't either.

Grant funded affordable homes are not as vulnerable to changes in the housing market because their financing is based on government investment not consumer demand. As such, in previous recessions they have provided a baseload of housebuilding that's carried on regardless (and has, in fact, increased to fill in for falling consumer demand for market homes see Box 13 in Part 4).

But in the last 30 years, the share of affordable homes that are delivered through grant has fallen. And in the last decade this trend has rapidly accelerated. Today only a third of affordable homes are grant funded. Half rely on Section 106 obligations and a further 9% are delivered through 'other funding', which includes cross subsidy. All this delivery would be vulnerable in a market downturn.

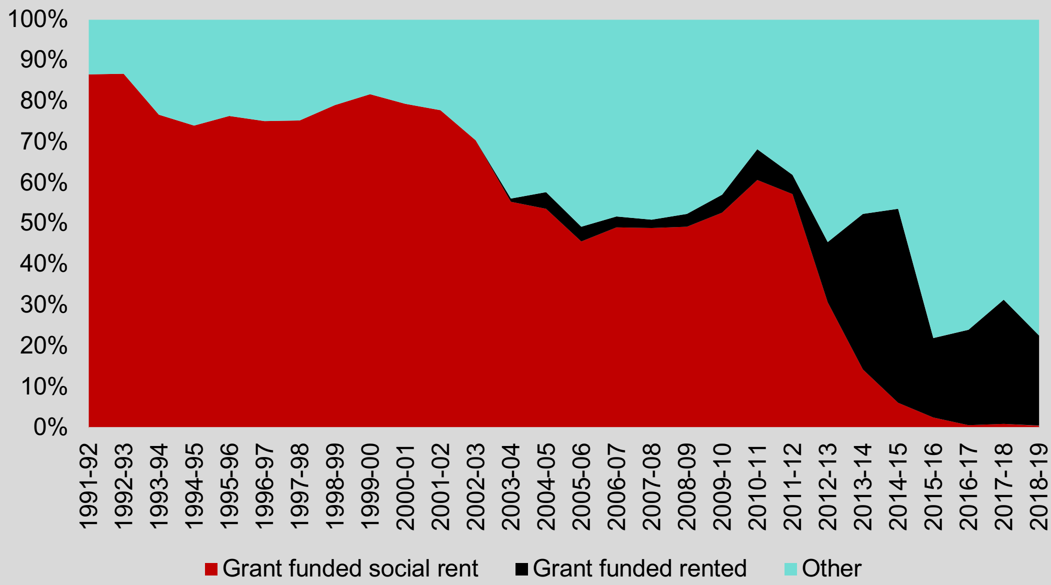
In contrast, in the early 1990s recession 100% of affordable homes were delivered through government grant funding. And although this had fallen by the time of the Global Financial Crisis, 79% were still funded by grant in 2007/08.

Figure 15: share of affordable housing completions delivered with government grant[106]



And it gets worse. The share of specifically *rented* grant funded affordable homes – most notably social rented housing – has fallen even further. At the start of the 1990s rented grant funded affordable homes accounted for almost 90% of the total and in 2007/08 almost half. Now it is barely more than 20%.

Figure 16: share of grant funded rented affordable housing completions[107]



[106] Live Table 1000C, MHCLG
[107] Live Table 1000C, MHCLG

This is a problem because sales of affordable home ownership homes – like shared ownership or First Homes (see discussion below) – are affected by the same drop in consumer demand that affects homes to buy at full market prices in a downturn. Savills have shown that shared ownership's sales patterns follow the same trend as market homes.[108] This means that developing new affordable home ownership homes can also be vulnerable in a downturn, even if they are grant funded. If people aren't going to buy them it doesn't stack up to build them, even if their development costs are partially met by grant.

Development of rented affordable homes isn't affected by the same issue. There are so many people who find it difficult to afford a rented home, demand for them is practically almost inexhaustible and there is next to no risk of them becoming more difficult to let in a recession. (Arguably, the increase in people who fall into payment trouble increases the need and should make them easier to let.)

Grant funded social rented housing is the type of housing least vulnerable to a housing downturn of all. This is because it has the most affordable rents and because its business model is completely disconnected from current market conditions. The formula for determining rent levels isn't based on current market prices and is the only one that takes any account of local incomes.

In 1991/92 87% of affordable homes were grant funded social rent. But we are entering this recession with grant funded social rented housing having fallen so low that it barely makes sense to talk about it in terms of percentages today. There were only 351 built across the entire country in 2018/19 – 0.6% of the total.

Every lever to boost market demand is already pulled

Housebuilding is also more vulnerable to a downturn now because all of the policy options for trying to stimulate consumer demand for market homes to buy have already been exhausted. The policy levers are all already pulled all the way out except building more social rented homes.

At the start of this crisis interest rates were already at a historic low with practically no room left to cut them without sending them negative. As we entered the Global Financial Crisis at the end of 2007 the Bank of England base rate was at 5.5%. Although this was low by historical standards, it meant that the move to a 0.5% base rate by March 2009 made a meaningful difference to the cost and attractiveness of owning a home. This will have added to consumer demand for home purchases and meant it didn't fall even further.

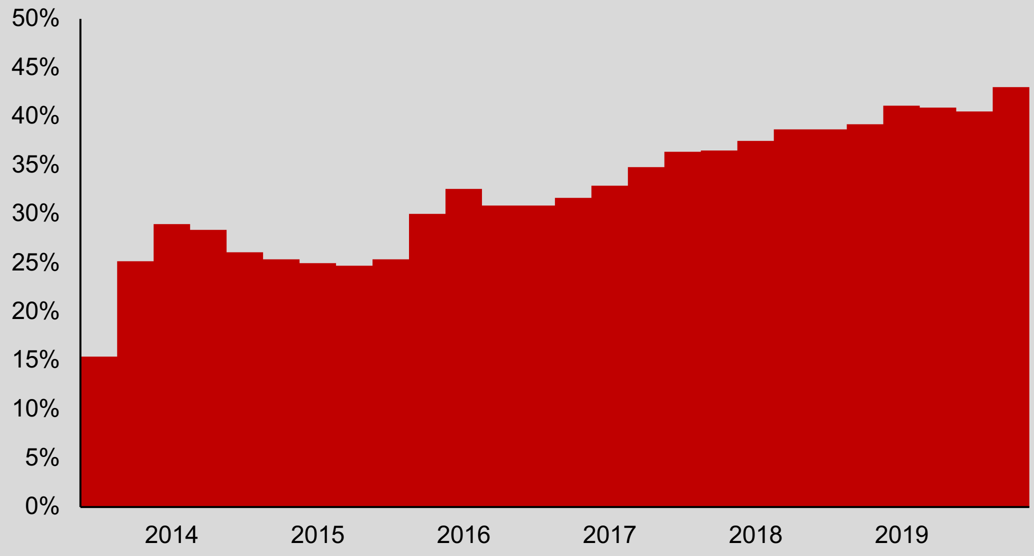
But the base rate has not been above 1% since then, and at the time of writing it stood at 0.1%. So, even if stimulating consumer demand for home ownership were one of the priorities that the Bank of England uses to fix interest rates it would have nowhere left to go.

[108] Impact of Covid-19 on social housing supply and residential construction, Savills, 2020

As we entered the recession the government was also spending big on directly supporting consumer demand for new homes purchases through the Help to Buy scheme. This equity loan, which covers up to 20% of a purchase price on a new build home when a buyer puts in a 5% deposit, offers even lower than rock-bottom commercial interest rates. It is entirely interest free for five years and on a low interest rate thereafter. It also allows buyers to access lower loan-to-value (and thus lower interest) commercial mortgages on the remaining 75% of the purchase price.

More than 40% of all new build speculatively developed homes were being sold with a Help to Buy equity loan as we entered the recession. And to March this year, the government had spent more than £16 billion on providing those Help to Buy equity loans.

Figure 17: share of market sale homes delivered through Help to Buy[109]



Help to Buy is due to wind down from March 2021 with a new smaller scheme due to end in 2023. But with Help to Buy loans currently already underpinning such a significant slice of consumer demand for new build market homes, even more government spending on stimulating consumer demand is unlikely to have much effect.

Current government focus looks in the wrong direction

Housebuilding is also vulnerable because the government has not yet indicated that it understands the threat that a contraction in consumer demand for market homes poses to it and is willing to act to avert it.

The policies and initiatives that have so far been announced are largely a legacy from the plans made before lockdown began. As such, they're responding to another context and won't get to grips with the fundamental problems that

[109] Resolution Foundation analysis of Land registry, House Price Index; MHCLG, Help to Buy tables, 2020

confront housebuilding now. Thus, as a precursor step to housebuilding being in a better position, government's plans need to change.

Announced grant for social rented homes

The main reason that the proportion of affordable homes delivered with government grant has fallen is recent years, as discussed above, is because the total amount of grant available is now much lower than it once was.

The government announced its plans for grant spending over the next five years in the budget in March and although there was some increase in grant and an underspend from previous years has been rolled forward, it will still not on the scale needed. The Affordable Homes Programme 2021/22-2025/26 will be £12.2 billion over five years, which equates to £2.44 billion for all affordable housing. This remains more than £1.3 billion less than was spent by the Homes and Communities Agency in 2009/10.[110]

Grant funded social rented housing is still likely to play a minor role in the scheme. The announced plan is for the homes to be delivered through the programme to be roughly half for some kind of affordable home ownership and half for discount rent (including both Affordable Rent and social rent). This is an improvement on 2016, when over 80% of homes were expected to be shared ownership, and the government has committed to a 'significant increase' in the number of homes that are for social rent.[111] However, at the time of writing it hadn't yet been specified what this would mean in practice. For example, it would be possible to double the number of grant funded social rent homes on 2018/19 levels – which could meet the government commitment – and still only be delivering them in the hundreds rather than thousands.

Furthermore, there is some concern about what impact the new Right to Shared Ownership will have on take-up of the grant for rented homes that is available. Reliable rental income is one of the things that makes it possible to secure finance for low rent affordable housing from lenders. If the introduction of the Right to Shared Ownership increases uncertainty it might become more difficult for affordable housing providers to borrow against future rental income, even if they are theoretically eligible for grant.[112]

Planning reform

The centrepiece of government announcements on boosting housebuilding since the start of the pandemic has been changing the planning system. The announcements have been a mix of short-term measures and a planning white paper to reform the system long-term. Both the short-term measures and

[110] Table 62, UK Housing Review, CIH, 2019
[111] Housing secretary pledges to increase social rent numbers under new £12bn programme, Inside Housing 13/03/2020
[112] Double or Quits: The influence of longer-term grant funding on affordable housing supply, Dr Stanimira Milcheva, UCL, September 2020

planning white paper have been in development since long before the pandemic began.[113]

In general terms, there are several reasons that changing the planning system cannot address a collapse in consumer demand. As outlined above, the problem in a recession is that people can't afford to buy new homes at expected prices, and no amount of tinkering with planning will give them the money to do so.

Furthermore, the government's own independent review of the barriers to increasing the speed of housing delivery build-out, led by Sir Oliver Letwin, found that even before the recession, market absorption rates were the fundamental constraint on faster building, not planning.[114] Market absorption is the pace new homes for market sale can be built and sold in an area without affecting their price. If housebuilders built homes to buy on the open market quicker they would flood the market and be forced to accept a lower price for each one.

The fact that planning is not the thing fundamentally holding building back is further illustrated 40% of the new homes granted planning permission not built.[115]

There are further reasons that the specifics of the announcements won't significantly help housebuilding through the recession.

Irrespective of any of the proposals in the white paper itself, in practice the timing means they won't be introduced until well after the recession has already taken its toll on housebuilding. It could plausibly be at least five years before they are implemented.[116] So far as they do have relevance in the current crisis, the risk is that trying to rewrite the planning system adds uncertainty that could even slow down the housing pipeline.

The short-term measures announced include:

- extending permitted development rights to include demolition of large blocks of flats and commercial buildings and rebuilding them as housing
- raising the small sites exemption from affordable housing Section 106 obligations from developments of 10 units to 40 or 50

These don't suffer from the same problem of timing as the white paper, but they are nevertheless inadequate to deal with the full impact that the recession will take on housebuilding. In addition to the general point about not addressing the central problem of lost consumer demand, both will eliminate affordable housing from new developments that do go ahead at a time when our need for new social rented homes has never been clearer. It doesn't make sense in an affordable housing crisis to offer affordable housing as the sacrificial lamb.

[113] The extension to permitted development for demolition and rebuild was consulted on in 2019 and the planning white paper included in the 2019 Queen's Speech
[114] Independent Review of Build-out, MHCLG, 2018
[115] 40% of homes granted planning permission not built, says Shelter, Inside Housing, 07/09/2020
[116] Assuming a year for reviewing consultation responses and further development of the proposals, a year for the parliamentary process, a year for piloting and two years' transition

But even if social housing wasn't in such dire need, the extension permitted development rights and the increase in small sites threshold will only apply to a minority of developments. They won't keep the bulk of housebuilders working.

First Homes

The other current policy focus is on introducing First Homes, a new type of affordable home ownership scheme where applicable homes are discounted by 30% on market prices. At the point of resale, the 30% discount must be passed on to the next buyer. First Homes were announced before the pandemic in 2019.

There are some strong similarities between this and other government home ownership schemes. For example, the difference with shared ownership is that the buyer doesn't pay rent on the 'unowned' 30% of equity, but can't buy it out either. The difference with Help to Buy is they don't pay interest on the unowned portion (even after five years) and instead of repaying it to the Treasury at the point of sale it goes to the next owner.

Introducing First Homes will not solve the problem of a collapse in consumer demand for homes to buy. On the contrary, collapsing demand is likely to frustrate their introduction.

In the first place, this is because there is every reason to expect that – as they are an affordable home ownership product like shared ownership – they will behave as shared ownership does when the housing market goes into downturn. As discussed above, consumer demand for shared ownership tracks demand for full price market homes to buy in a downturn. Simply, fewer people want and can afford to buy homes in a recession, even if they're discounted.

Secondly, government's proposal for rolling out First Homes is that they should be delivered through Section 106 obligations on speculative market developments. As above, Section 106 only delivers when market housebuilding is delivering. So far from being the solution to a drop in consumer demand, the delivery of First Homes may fall victim to it.

PART 3: LEVELLING UP – NATIONAL EMERGENCIES LOCALLY FELT

The housing emergency is a national crisis. But the effects of this housing emergency are felt locally and in every part of the country.

It's felt in big cities like Manchester, where a property goldrush has priced local renters out of their area and fuelled a homelessness crisis. And it's felt in left-behind towns like Blackpool, where renters are stuck in slum-like private housing with no hope of a decent social home.

Government has talked a lot about levelling up, about helping the people and communities across the country who feel left behind and ignored. But it is impossible to build communities that can share in growth and prosperity without investing in housing and building the social homes that people desperately need.

Put simply, if levelling up is about bringing the country together, forging unity from the political and social divides of the past, we have to start at home. As the Government pours billions into infrastructure projects aimed at boosting economies in the North and Midlands, there must be a housing plan that will help local people share in that growth.

A housing emergency in every region

To address the headlines decrying the housing crisis, policymakers in Whitehall have settled on a national policy: get the private market to build 300,000 homes a year, focused on the rural areas around London, and target nearly all government investment at areas of 'high affordability pressure'. That's why the new housing need formula will demand that some areas around London build around 250% more homes. Its why nearly all social housing grant has been spent in the south in recent years; and why 80% of other housing funding is directed at these same areas.

The London-centric approach is understandable. It's one of the least affordable areas of the country. And housing affordability is holding back growth in the capital. But focusing wholly on London risks forgetting about the rest of the country and the very real struggles people are facing. There are housing problems in every part of the country, caused by an imbalance in investment in housing. Inner city communities, large and small towns, and rural villages in every region have not seen the investment in social housing that they need.

A lack of social housing investment can lead to poorer housing conditions and worsening affordability. A failure to invest has impacted every region.

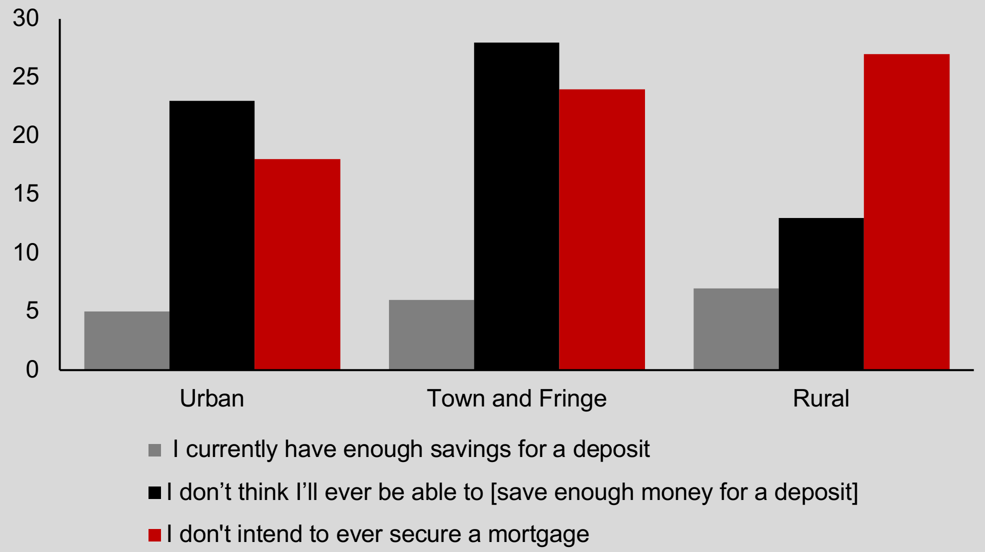
Figure 18: Affordability is not just a problem in London and the South East[117]

And the housing emergency is not just an 'urban' problem either. Villages and towns across the country have been left behind on housing too. Places like the district of Harrogate (see case study), where a lack of affordable rental housing is a serious blocker to growing village economies, have seen their housing emergencies go unaddressed.

When asked by YouGov whether they thought their local area was "affordable to people who need to live here", large proportions of people in towns (44%), urban areas (41%) and rural areas (48%) said this did not describe their area well. 1 in 5 people in rural areas said this did not describe their area well *at all*.[118] Saving for a deposit large enough to buy a home on the market is a challenge in every kind of area.

[117] YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020.
[118] YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020.

Figure 19: Areas of all types can be unaffordable to local people[119]



YouGov's research also shows issues with housing quality are shared between people living in urban areas, towns and rural areas alike.[120]

The job of levelling up will take more than just investing in economies, through infrastructure and innovation. It should recognise and reflect how people experience their local area and be understood through the lens of what's important to local people. Places right across the country, in cities, towns, and villages, need and want their housing levelled up. They need investment in social housing.

Underinvested-in areas have been left behind on housing too

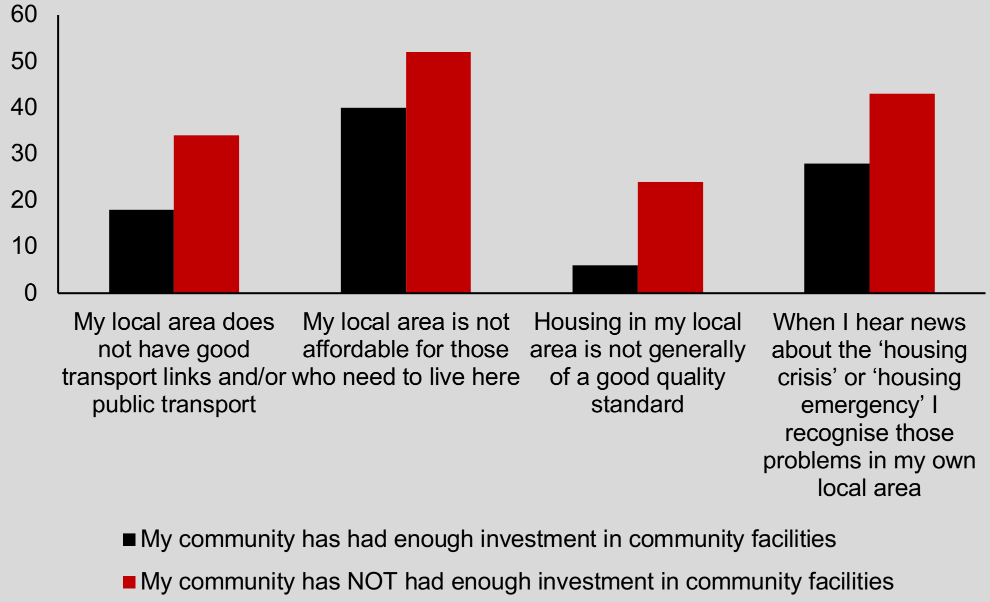
Many places need targeted investment in their housing, where there is no prospect of the market providing. Investing in infrastructure alone will not reach every community that has been left behind. Nor can it alone solve the housing emergencies experienced in the places it does reach. Huge investment in infrastructure and innovation promised in the North and the Midlands will only go so far in levelling up the country.

Underinvested places have been the centre of the government's levelling up agenda. And rightly so. Many areas, not exclusive to, but concentrated in the Midlands and the North, do need improvements to the infrastructure of their economies. Existing disparities in the quality of public goods and services, like

[119] YouGov, survey of general population in England, base: 5177, weighted, fieldwork conducted 4th-7th September, 2020
[120] YouGov's research found no statistically significant difference between the percentage of people in each area classification (urban, town and fringe, rural) experiencing the following housing quality issues during lockdown: mould; a problem with plumbing/no running water; damp; leaking roof or windows; a problem with the boiler/no hot water; condensation; poor insulation or excess cold. Source: YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020.

transport and healthcare, have become untenable. But this lack of investment is mirrored in housing too. Underinvested communities have been left behind in spending in almost every area – including their housing.

Figure 20: Underinvestment is felt across the board in left-behind areas[121]



Levelling up left behind communities demands that we look beyond the economic productivity of whole regions and focus our attention to the housing conditions of the places within them too.

Other areas are suffering from the 'London effect'

Public investment in trainlines, bus routes, business infrastructure and new schools can have significant impacts on a local area and its people. Access to new amenities, new places within commutable distance and new employment opportunities are the stated aims. In many cases these benefits do follow. But without a housing offer that anchors the people that live in those areas now, investment of this kind can present new challenges. Without due attention local housing emergencies experienced by local people can be created and exacerbated, meaning the positive impacts of such investment are not felt by all of the existing community.

The disastrous effects of failing to consider affordable housing alongside infrastructure spending can be seen in places like the city of Manchester (see case study). The huge inflows of private investment and development that tend to follow economic growth and new infrastructure can push housing costs beyond the means of people on local incomes – who, in the short term, might not benefit directly from renewed interest in their area.

[121] YouGov survey, online, 18+. England sample size was 5,177 and results weighted to be representative of England's population. Fieldwork dates were 4th - 7th September 2020.

Providing genuinely affordable housing, at rents linked to local incomes is *the* way to centre the people that live in underinvested areas in the levelling up agenda. It can facilitate the much-needed growth of economies like Wolverhampton’s (see case study) whilst preventing the housing emergencies of these places from reaching the severity of London or Manchester’s. The undersupply of stable, low-cost social rent homes in places undergoing rapid economic change has undermined the resilience of those places and their people to that change. Instead of benefitting from it – of being levelled up – they have been left behind by it. Their housing crisis has worsened.

Levelling up demands that we learn from the lessons of the past by rebuilding places that have seen their housing situation neglected and ignored, whilst committing to not creating new emergencies. At the centre of this vision should be social housing. Ensuring places and people in every region and of every kind are as well housed as their counterparts elsewhere should be a fundamental principle of the levelling up agenda.

Levelling up with social housing

All these problems have a common theme. A lack of affordable, quality social homes. While 300,000 new homes might sound like a great solution, it isn’t if those aren’t homes that people can afford. In fact, the government's strategy of focusing wholly on private development risks exacerbating some of the problems we’ve seen, pricing out local people from their areas. Building social housing across the country is the only way to truly level up. The following case studies demonstrate just some of the ways that social housing can help to unpick local housing emergencies and level up places right across the country.

Case studies

Tackling homelessness in Manchester

Image credit: Matthew Waring / Unsplash

Box 6: Manchester snapshot

Key challenges:

- Extremely high housing need and homelessness
- Rapid price increases and poor social rent delivery
- Displacement of low-income households

Key statistics:

- 1,373 households owed a homelessness duty (January to March 2020)[122]
- 14,608 households on social housing waiting list (2019)[123]
- 53% Increase in average private rents in last 5 years[124]

The City of Manchester, in the North West of England, has been one of the fastest growing places in the country in recent decades. Manchester has been the focus of significant investment in transport and technological infrastructure. Businesses and new residents have been attracted to relocate to the city, and as

[122] Live tables on homelessness, Rough sleeping snapshot in England: Autumn 2019, Table 1, MHCLG
[123] Live tables on rents, lettings and tenancies, Table 600, MHCLG
[124] Shelter analysis of change in mean weekly private rents 2013/14 to 2018/19. Private rental market statistics 2018-19, Table 2.4, VOA

a result the Manchester area has been a key destination for developers and investors alike.[125]

Homelessness and rough sleeping also increased dramatically in Manchester prior to the pandemic. The number of households in temporary accommodation in Manchester grew nearly six-fold, from 329 in the first quarter of 2014 to 1,971 in the same quarter of 2019.[126] The latest government figures showed Manchester's rough sleeping count at 91.[127] But Greater Manchester Combined Authority identified as many as 1000 people in need of emergency accommodation rough sleeping or in shared sleeping arrangements at the start of the pandemic. Many more were pushed onto the streets during lockdown[128]

House prices and rents have risen much faster than incomes. Between 2013/14 and 2018/19, lower quartile private rents in the local authority area increased by 79% - £275 per month.[129] The draft Greater Manchester Spatial Development Framework estimates that 38% of newly forming households in in the region cannot now afford to buy or rent a home at lower quartile prices.[130]

Social housing is the only type of housing in Manchester that will provide a genuinely affordable, quality home for the thousands of people experiencing homelessness or stuck in unaffordable or unsuitable private rented accommodation. Average Manchester social rents were over £100 a week cheaper than private rents in 2018/19.[131]

Yet, despite significant amounts of private development across the city, only 71 homes for social rent were delivered between 2014/15 and 2018/19. In 2018/19 alone, 181 social homes were sold through the Right to Buy.[132]

When looked at spatially, low-income communities have not benefitted from the apparent boost in economic activity or housing growth in the centre of the city. As the city has grown and rents have increased, worklessness, under-employment and low wages have persisted for many of Manchester's residents and are concentrated in pockets across all areas of the city.[133] Yet development of homes for market sale and rent have come with little to no social housing.

With large amounts of Manchester's remaining social housing stock located on the outskirts of the city's boundaries, getting access to a social home for many

[125] The local plan: Have your say, Manchester City Council, 2020
[126] Live tables on rents, lettings and tenancies, Table 600, MHCLG
[127] Live tables on homelessness, Rough sleeping snapshot in England: Autumn 2019, Table 1, MHCLG
[128] Andy Burnham writes to Robert Jenrick over 'Everyone In' homelessness policy, Greater Manchester Combined Authority, 05/05/2020
[129] Shelter analysis of change in lower quartile monthly private rents 2013/14 to 2018/19. Private rental market statistics 2018-19, Table 2.7, VOA
[130] Plan for homes, jobs and the environment, Greater Manchester Combined Authority, 2019
[131] Mean weekly private rent 2018/19: £193.62, Private rental market statistics 2018-19, Table 2.7, VOA. Average social rent: £77.12, Local authority housing statistics: 2018-19, Table H, 2020, MHCLG
[132] Local authority housing statistics: 2018-19, Tables I and B, MHCLG, 2020
[133] English indices of deprivation, File 7, MHCLG, 2019

means leaving your area – moving away from support networks and job opportunities.

The council have identified the huge, growing need for social rent housing right across the city. Social housing starts have increased in recent years and the Manchester City Local plan is currently under review, with a consultation having closed in May this year.[134]

But strong local policies would never have been enough to prevent mounting homelessness in Manchester. Grant funding for local authorities and housing associations to deliver their own social housing before significant market change occurs is vital in ensuring that existing communities can stay in the areas they live in, whilst allowing new communities to put down roots.

The housing situation has now become so serious in Manchester, pulling only on the cross-subsidy lever would be wholly inadequate. As we explain in part 2 of this report, the vast amounts of private development already occurring[135] - and in the pipeline - in Manchester are at risk of slowing or stopping altogether as a result of the recession. A reliance on speculative housebuilding in providing both construction jobs and section 106 affordable housing, leaves both these things vulnerable to the recession.

Over the long term, the planning system alone cannot deliver the numbers of social rent homes that are truly needed. The draft Greater Manchester Spatial Framework references current demand for 'affordable housing' alone at over 85,000, yet plans only for 201,000 homes in total, market and sub-market, across the plan period.[136] A step change in social housing investment is essential if Manchester is to meet the need and begin addressing its chronic housing emergency.

[134] The local plan: Have your say, Manchester City Council, 2020
[135] *Ibid*.
[136] Greater Manchester housing plans are back on the agenda!, Michael Vivona, 07/01/2019

Building for the future in Wolverhampton city

Image credit: Lucas Prado / Pexels

Box 7: Wolverhampton snapshot

Key challenges:

- High current and projected housing need
- High growth prior to the pandemic, but vulnerable to a recession
- No grant for social rent since 2018

Key statistics:

- 648 households owed a homelessness duty (January to March 2020) [137]
- 7,523 households on social housing waiting list (2019)[138]
- 62% private renters receiving housing benefits (May 2020)[139]

Housing need in Wolverhampton is high. The council's social housing waiting lists stands at 7523, around 7% of the total number of households in the city, and affordability challenges have increased in recent years with house prices increasing faster than incomes.[140] The city's proximity to Birmingham also pushes

[137] Statutory homelessness in England: January to March 2020, Table A1, MHCLG
[138] Live tables on rents, lettings and tenancies, Table 600, MHCLG
[139] Numbers of Private rented claims are taken from DWP stat-xplore. Number of private rented households in each LA are estimated by Shelter by taking Census 2011 data and applying the regional change since 2011 from the English Housing Survey. Two-year averages (2010/11 and 2011/12; 2017/18 and 2018/19) for change in size of PRS from EHS are used to smooth the data. The percentages are calculated by Shelter and should be treated as indicative estimates due to the method used and some small inconsistencies between households and claim units.
[140] Shelter analysis of Annual Survey for Hours and Earnings (All full time resident workers), ONS, 2019. UK house price index, HM Land Registry, Jan 2020

up the need for new, low cost housing. An ‘Urban Capacity Review’ has identified an expected shortfall of 37,600 homes in the Greater Birmingham and Black Country housing market area by 2031. Much of this is projected to arise in Birmingham. Wolverhampton City and the other Black Country authorities are tasked with picking up a great deal of the shortfall from Birmingham.[141]

For the city itself, more change is on the horizon. Wolverhampton is part of the West Midlands Combined Authority (WMCA), established in 2016. The WMCA is a key centre for economic growth and an important part of the government’s levelling up agenda. The WMCA has set out a 30-year plan for investment in skills, innovation and transport, energy and digital infrastructure aimed at stimulating economic growth and boosting the region’s GVA (gross value added).[142] Prior to the pandemic the region saw high levels of growth. Between 2016 and 2017, GVA per person rose 3.1% in the West Midlands, compared with a 2.5% average across the UK.[143]

As a result, the city of Wolverhampton has become one of the fastest growing economies in the UK in recent years. Private investment in the city has skyrocketed and plans for economic regeneration paint a picture of a fast-changing city in the near future. Housing growth is central to this vision:

> *The City Centre’s small resident population will be transformed through the provision of over 2,000 new homes, supporting the growth of the City Centre. Raising aspirations by creating a different type of city centre living will help bring residents back into the City, creating mixed and sustainable communities with sufficient affordable housing to meet local needs.*[144]

Wolverhampton Council, Housing Strategy 2019 - 2024

It is crucial that existing communities see the benefits of the broader economic improvements happening around them. The experience of Manchester should provide ample warning of what rapid economic change without a housing offer that anchors local communities in the labour market can do.

> *“The City of Wolverhampton can play a strategic role as one of the top ten growing economies in the UK and is currently experiencing record levels of private and public investment, with £3.7 billion being injected into regeneration projects Citywide.”* [145]

Wolverhampton Council, Housing Strategy 2019 - 2024

Wolverhampton has also been identified as a city whose economy is especially vulnerable to the emerging recessionary impacts of the pandemic, despite

[141] Black Country Urban Capacity Review, Dudley Council, 2019
[142] Strategic Economic Plan, WMCA, 2017
[143] West Midlands State of the Region, WMCA, 2019
[144] Housing Strategy 2019 - 2024, Wolverhampton Council, 2019
[145] Housing Strategy 2019 - 2024, Wolverhampton Council, 2019

enjoying high growth in the years leading up to outbreak of COVID-19. Analysis by the Joseph Roundtree Foundation ranked Wolverhampton at 11th in local authority economies where recovery from COVID-19 would be hardest, with a potential unemployment peak of 18%.[146]

With the City growing rapidly prior to the pandemic, housing investment and the resulting construction work had been identified as a key source of new employment opportunities.[147] These jobs are reliant on a continuing flow of housebuilding. Without counter-cyclical investment in housebuilding in the form of grant for social housing, the construction sector in Wolverhampton is at risk of a large backwards step.

Arbitrary restrictions on accessing funding in schemes set out over even relatively short periods of time can quickly become an impediment to addressing emerging needs in the community.

Just one year on from the reintroduction of grant for social rent in the Affordable Homes Programme, the gap between private and social rents in Wolverhampton grew above the threshold for accessing that funding. In 2018/19 weekly social rents stood at £77.97 whilst weekly rents in the private rented sector rents averaged £128.08 – a difference of £50.11.124 But Wolverhampton remained unable to bid for grant to deliver social rented homes because the eligibility list (as discussed earlier in this part of the report and later, in part 4) - which excludes all authorities where this difference was less than £50 in 2018 - has remained static from June 2018.

Guidance attached to the new Affordable Homes Programme, which will provide grant funding for affordable housing from April 2021 to March 2026, has retained some form of geographical restriction on grant for social rent (see part 4 of this report). At the time of writing, it is not clear how these areas will be identified and whether Wolverhampton will make it onto the list of eligible authorities. But restrictions will continue to apply and continue to be guided by narrow conception of where and when social rent homes are needed.

The restriction in accessing grant for social rent limits the city's ability to plan ahead across the same timescales that it can in its plans for economic and population growth. Forward-looking projections like the those made in the Black Country Urban Capacity Review are limited in the extent to which they can influence actual housing delivery because of the short-term nature of Affordable Housing Programme settlements, restrictive funding criteria and a small overall envelope. Wolverhampton cannot guarantee that these new homes will be affordable to existing communities and new communities in need from Birmingham. Delivering genuinely affordable homes in the right places in cities like Wolverhampton requires a proper commitment and a fresh approach to grant funding for social rent.

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[146] Targeted action for parts of Britain at risk of surging unemployment, JRF, 2020
[147] Housing Strategy 2019 - 2024, Wolverhampton Council, 2019

Reaping the benefits of infrastructure investment in Cheshire East

Image credit: Cheshire East Council

Box 8: Cheshire East snapshot

Key challenges:

- Different housing markets with a range of affordability challenges
- Increasing demand from new HS2 station
- No grant for social rent since 2018

Key statistics:

- 374 households owed a homelessness duty (January to March 2020)[148]
- 6,326 households on social housing waiting list (2019)[149]
- 28% increase in average private rents in last 5 years[150]

Cheshire East has been a focal point for the government's levelling up agenda and the subject of major public investment in infrastructure. Homelessness and housing need is already high, but large scale investment could create new affordability challenges if the plans do not properly consider the provision of social housing.

Cheshire East is a large local authority area. The diversity found in the size and type of places within the Cheshire East area belies descriptions of one single housing market. A varying picture across the authority drives housing need. In the three months between January and March 2020, 374 households presented

[148] Statutory homelessness in England: January to March 2020, Table A1, MHCLG
[149] Live tables on rents, lettings and tenancies, Table 600, MHCLG
[150] Shelter analysis of change in mean weekly private rents 2013/14 to 2018/19. Private rental market statistics 2018-19, Table 2.4, VOA

to Cheshire East council and were assessed as being owed a homelessness duty. That's four people every day.[151]

The two large towns in within Cheshire East – Crewe and Macclesfield – have differences of their own. Despite relatively low average house prices across the local authority as a whole, Macclesfield has historically been more expensive than Crewe and affordability is more of a challenge.[152] Affordability pressures at a local level drive housing need in the area. Cheshire East also has a high proportion of rural communities – with 39% of residents living in villages and rural hub towns. Low incomes, high rents and house prices, and a chronic lack of social rented housing, has a significant impact on rural areas right across the country.

Plans for phase 2a of the High Speed 2 (HS2) rail project will connect Crewe to the first phase of the project, improving journey times to the West Midlands and London. Travel times to London will be cut from around 90 minutes, to under an hour. Though this section of the project is dependent on the completion of phase 1, the latest stocktake estimates that both will be complete and open for service between 2028 and 2031 should phase 2a receive the green light to begin construction.[153]

Assessment of the economic and social benefits of HS2 have been hotly contested. The original economic case for the project, presented to the Treasury, assessed benefit-cost ratios (BCR) for the project ranging from low to medium. However, the Oakervee Review, commissioned by the Prime Minister in February this year, called for greater consideration of the wider benefits HS2 could provide, including those relating to "economic rebalancing". Oakervee suggests that including and understanding these benefits might provide a stronger case for HS2 – one that matches the strategic weight afforded to the project in government.

> *Crewe will be the Constellation's primary transport hub. New development will ripple from the constellation's urban heart to generate good growth throughout the area. Enhanced public transport services focused on Crewe and the other transport hubs in the area will strengthen the Constellation's connectivity to adjoining economies.*[154]
>
> The Constellation Partnership, HS2 Growth Strategy

For Cheshire East, it is hoped that HS2 will incentivise the kind of investment that has been seen in Birmingham as plans for phase 1 have progressed.[155] The

[151] Statutory homelessness in England: January to March 2020, Table A1, MHCLG
[152] Strategic housing market needs assessment, Cheshire East Council, 2013
[153] HS2 Chairman's stocktake, Allan Cook, 2019.
[154] The Constellation Partnership, HS2 Growth Strategy, 2018
[155] Birmingham has seen businesses such as Deutsche Bank and HSBC move operations from London. HMRC have also relocated. Commentators and proponents of HS2 have pointed to these developments as evidence of the 'rebalancing' effects of HS2. However, it is not possible to establish whether these moves would have occurred without the promise and development of HS2.

Constellation Partnership, consisting of two Local Enterprise Partnerships and seven local authorities, including Cheshire East, has been established to make the case for, and coordinate investment opportunities. The Partnership argues that that HS2 will provide the area with unrivalled connectivity.[156]

> *"Crewe will be the Constellation's primary transport hub. New development will ripple from the constellation's urban heart to generate good growth throughout the area. Enhanced public transport services focused on Crewe and the other transport hubs in the area will strengthen the Constellation's connectivity to adjoining economies."*[157]

HS2 Growth Strategy, The Constellation Partnership, 2018

But improved connectivity and desirability could create new affordability challenges. Plans for the Crewe Station Hub area include the release of new employment land, and significant new residential development for high skilled workers in Crewe town centre.[158] Where affordability challenges currently exist in Crewe, they stem from low incomes amongst residents. For many, accessing the new, better quality employment promised by the arrival of HS2, will require additional interventions, such as investment in skills. This will take time. Access to new town centre homes for market sale and rent will be limited for those currently on low incomes. For others, unable to work or not of working age, access to new homes in the market cannot occur in the same way.

Ensuring genuinely low-cost housing is delivered in the area, before the arrival of this major new transport hub, will put the communities of Crewe at the heart of Cheshire East's growth. The long delivery timeline of HS2 presents central government, Cheshire East, and other local authorities along the second phase of the route with an opportunity to build resilience in their communities and to ensure the benefits of this huge infrastructure project are felt by the people currently living in these places. Investing in a new generation of social housing will provide communities across Cheshire East with a secure and affordable foundation to build upon, insulate them from the negative effects of rapid economic change and give them a meaningful stake in the growth promised by such large-scale public investment.

A range of affordability challenges, high housing need and the potential for that need to grow in the near future can only be tackled by delivering new, good quality social rent homes. But despite a clear need, social housing providers in the area been unable to access grant for social rent housing due to restrictions in the current Affordable Homes Programme. And at the time of writing it is not clear whether changes made in the next Affordable Homes Programme (2021 – 2026),

[156] About, The Constellation Partnership
[157] HS2 Growth Strategy, The Constellation Partnership, 2018
[158] Crewe Station Hub area action plan: Development strategy, Cheshire East Council, 2019

will enable Cheshire East to access the necessary levels of grant to deliver social rent homes (see part 4 of this report).

Rebuilding left behind communities in Blackpool

Image credit: Michael D Bekith / Unsplash

Box 9: Blackpool snapshot

Key challenges:

- High housing need
- Health, employment and income deprivation
- Poor housing quality in the private rented sector
- No grant for social rent since 2018

Key statistics:

- 354 households owed a homelessness duty (January to March 2020)[159]
- 1 in 10 households on social housing waiting list (2019)[160]
- 77% private renters receiving housing benefits (May 2020)[161]

Prior to the pandemic, around 68% of private renters in Blackpool were claiming housing benefits to help pay the rent. This figure increased during lockdown,

[159] Statutory homelessness in England: January to March 2020, Table A1, MHCLG
[160] Live tables on rents, lettings and tenancies, Table 600, MHCLG
[161] Numbers of Private rented claims are taken from DWP stat-xplore. Number of private rented households in each LA are estimated by Shelter by taking Census 2011 data and applying the regional change since 2011 from the English Housing Survey. Two-year averages (2010/11 and 2011/12; 2017/18 and 2018/19) for change in size of PRS from EHS are used to smooth the data. The percentages are calculated by Shelter and should be treated as indicative estimates due to the method used and some small inconsistencies between households and claim units.

reaching 77% by May[162] – making Blackpool something of an outlier in England. The Joseph Roundtree Foundation's analysis, which identifies local authority areas where the economic recovery from COVID-19 will be toughest, placed Blackpool as the most at-risk authority outside of London.[163]

As a seaside town, Blackpool's local economy is highly dependent on its tourism, hospitality and leisure industries, which have been hit hard by the pandemic. The incomes of workers in these sectors, pinned on the success of the spring and summer months' business, are generally low and unstable.

A lack of stable full-time employment creates housing affordability challenges. Despite exceptionally low house prices, you cannot get a mortgage without secure, steady employment. Homeownership is unattainable and discounted products like First Homes can do little for residents with irregular employment.

Good quality, secure and affordable rented accommodation is essential for the Blackpool community. But the private rented sector isn't providing the quality of home or security that residents so desperately need.

As holiday and travel patterns have changed, demand for holiday lets in hotels and large bedsits has diminished, leaving a large stock of older, poor quality accommodation available to purchase at very low values. A large number of these building have been purchased by private landlords to rent as small flats or bedsits; Blackpool has an unusually large private rented sector. A Private Sector House Condition Survey published in 2008 identified that 39% of private sector homes in Blackpool, and 47% of the private sector homes housing "vulnerable" people, were non-decent with the vast majority in the inner Blackpool area.[164] These issues remain prevalent.[165]

A unique combination of factors has presented Blackpool with significant challenges to address in the private rented sector. Low purchase prices and the nature of the former guest house and hotel accommodation, combined with low incomes in the community, mean that subdividing the buildings into as many units as possible and setting rents as low as housing benefit rates will provide a sufficient return for a private landlord in Blackpool. For these landlords there is little incentive to improve the standard of these homes, many of which are in poor condition.

The council operates additional, selective and HMO (houses in multiple occupation) licensing in the town to enforce minimum standards where possible. But these schemes are not motivating the widespread market change needed in inner Blackpool. Due to the nature of the former holiday lets, bringing this accommodation to anything above minimum standards requires significant investment – in many cases the homes need rebuilding entirely. Private

[162] *Ibid.*
[163] Targeted action for parts of Britain at risk of surging unemployment, JRF, 2020
[164] Fylde Coast strategic housing market assessment, Blackpool Council ,2014
[165] Housing strategy 2018-2023, Blackpool Council, 2018

landlords, have not been willing or able to invest so heavily. Licensing schemes can only hope to achieve the minimum standard. As a result, low-quality HMOs remain prevalent in inner Blackpool.

Low-income private tenants have become a transient population, moving from one unsuitable home to the next. As the Marmot review of health equity in England details, poor housing quality and instability can have severe impacts for the individuals concerned.[166] Social deprivation, worklessness and poor physical and mental health outcomes persist in Blackpool.[167] Addressing housing market failure is at the heart of turning the community's fortunes around. Investing in social housing is a vital part of this.

In 2015 Blackpool Council established a council-owned housing company, My Blackpool Home, to tackle the prevalence of poor-quality HMOs in the private rented sector. My Blackpool Home have entered the market, making use of long-term borrowing and purchasing low value accommodation from landlords. The homes are then refurbished or rebuilt to a decent standard and let at a discounted rate. My Blackpool Home house around 90 new households every quarter from the local authority waiting list.[168] These good quality homes provides significant relief in comparison with the experiences of those still stuck in the lower end of the private rented sector.

However, the housing company's influence on the rented sector of the town is limited by the extent to which the council can take on debt. The high costs involved in improving the quality of the stock can be prohibitive. Social housing investment can provide the missing piece. With grant for social rent, Blackpool Council could deliver genuine and widespread market change. Improved quality, ongoing maintenance and social rents with secure long-term tenancies can turn around the lives of low-income residents currently struggling in the private rented sector.

[166] Health equity in England: The Marmot review 10 years on, Michael Marmot et al., 2020
[167] English indices of deprivation, File 7, MHCLG, 2019
[168] Housing strategy 2018-2023, Blackpool Council, 2018

A growing housing emergency in Thanet

Image credit: Lee Rogers

Box 10: Thanet snapshot

Key challenges:

- Affordability
- Employment and income deprivation
- Growing housing need and homelessness

Key statistics:

- 310 households owed a homelessness duty (January to March 2020)[169]
- 30% increase in average private rents in last 5 years (2019)[170]
- 0 social rent homes delivered previous 4 years (2015/16 to 2018/19)[171]

The housing emergency in Thanet has been driven by four decades of economic change, coupled with a failure of recent governments to invest in the housing of its coastal towns. The area is undergoing more change and low-income communities concentrated in the district's urban areas are being left further behind.

Homelessness is on the up. The number of households in temporary accommodation in Thanet rose from 49 in the second quarter of 2015 to 228 in the second quarter of 2018. And there are a great many more seeking support

[169] Statutory homelessness in England: January to March 2020, Table A1, MHCLG
[170] Shelter analysis of change in mean weekly private rents 2013/14 to 2018/19. Private rental market statistics 2018-19, Table 2.4, VOA
[171] Live tables on affordable housing supply, Table 1011C, MHCLG

from the council. Since the social housing waiting list was cut down from over 6000 to 634 in 2014, the number of households on the list has risen to 2592.[172]

The housing emergency in London and the South East is typically characterised as one of extremely high house prices and rents. At a regional level, incomes are higher than in the rest of England, but rents and house prices are disproportionately high. But looking at a more local level, specific communities can bit hit by both extraordinarily high housing costs as well as low incomes. The coastal district of Thanet, Kent, is home to a number of these communities.

Much like Blackpool, large proportions of residents in Thanet are reliant on typically low wage and unstable employment provided by local tourism, which has struggled since the 1980s to attract the visitors it once did. Cultural and economic changes moved tourism away from Thanet's seaside towns and the peripheral location of the district has limited other economic activity occurring.[173] As a result shops, arcades and houses were closed and left empty for decades.

But recent years have seen a revival in Kent's tourism and creative sectors. The town of Margate, in Thanet, has been at the centre. The newly-built art gallery Turner Contemporary brings visitors from across the country. [174] The improved connectivity provided by High Speed 1, which completed in the late 2000s, is regarded as a key factor in Margate's 'revival'.[175] Kent County Council also recently confirmed plans for the new Parkway Railway Station, aimed at decreasing journey times to London from towns like Ramsgate, mitigating against Thanet's relative geographical isolation.[176] Thanet's seaside towns are seeing new investment in business and development.

Prior to the pandemic demand for homes for rent and sale from new residents on higher incomes and those wishing to purchase a second home by the sea were on the up. And the new Parkway Station may fuel demand further.[177] Average first-time buyer house prices in Thanet have increased by 66% in the last 8 years[178] and average private rents across the district reached double that of the average social rented home.[179] But deprivation and low incomes in the district persist and are at risk of worsening as a result of the pandemic. This will continue to drive housing need in the absence of new homes that are affordable to local people.

According to the Thanet Housing Strategy, median full-time earnings in the district prior to the pandemic were around £25,000, but 29% of the population

[172] Live tables on rents, lettings and tenancies, Table 600, MHCLG
[173] Economic Growth and Regeneration Strategy and Plan 2013-2031, Thanet Council, 2013
[174] Turner Contemporary: Did art transform 'no-go zone' Margate?, BBC, 03/10/2019
[175] Kent's HS1 shows how HS2 could benefit the North, The Spectator, 14/11/2019
[176] Thanet Parkway Station plans given boost as Kent County Council agrees to contribute to funding, Kent Online, 27/01/2020
[177] Housing, homelessness and rough sleeper strategy, Thanet Council, 2020
[178] Shelter analysis of mean first-time buyer house prices 8 years from January 2020. UK house price index, HM Land Registry.
[179] Mean weekly private rent 2018-19: £158.08, Private rental market statistics 2018-19, Table 2.7, VOA. Average social rent: £79.41, Local authority housing statistics: 2018-19, Table H, 2020, MHCLG

earn less than £16,000 per year.[180] Worklessness and low wages are concentrated in pockets of Thanet's towns. Five of Thanet's 23 wards meet the Local Trust's definition of "left behind", all of which lie within the coastal towns of Margate, Ramsgate and Broadstairs.[181] For these areas, homes for social rent, linked to local incomes, are the only way to tackle and prevent growing homelessness. Yet despite the scale of inequalities in access to good quality, affordable housing, the recent supply of social rent homes has been poor in Thanet. No social rent homes were delivered in Thanet in the last 3 financial years.[182]

Villages in Harrogate in need of social housing

Image credit: Daniel Tomlinson

Box 11: Harrogate snapshot

Key challenges:

- High rents and house prices
- Lower wages in village economy
- Rural housing delivery challenges

Key statistics:

- 9.04: median house price to workplace-based earnings (2019)[183]
- 25% increase in average private rents in last 5 years (2014 to 2019)[184]

[180] Housing, homelessness and rough sleeper strategy, Thanet Council, 2020
[181] Left Behind? Understanding communities on the edge, Local Trust, 2020
[182] Live tables on affordable housing supply, Table 1011C, MHCLG
[183] Ratio of house price to workplace based earnings 2002-2019, ONS, 2020.
[184] Shelter analysis of change in mean weekly private rents 2013/14 to 2018/19. Private rental market statistics 2018-19, Table 2.7, VOA

- 35 social rent homes delivered and 100 Right to Buy sales (2014/15 – 2018/19)[185]

High housing costs and an undersupply of rented homes affordable to residents who live and work locally weighs heavily on the local community and the economy of Harrogate's villages.

The Harrogate local authority, located in the Yorkshire and the Humber region, consisting of a large town surrounded by rural areas and an Area of Outstanding Natural Beauty (AONB). A large proportion of the population and of Harrogate's businesses are located in villages, with many in dispersed communities.[186]

Harrogate's economic strategy has identified housing affordability as a major barrier to economic growth.[187] Young families, who might have moved into a home in the village they grew up in and found work locally, are no longer able find a good quality, affordable home in the area. In turn, low wage economies like agriculture and retail suffer from both an undersupply of employees and a lack of customers. Local services cannot access the key workers they need to service villages. Village schools can become unviable for a lack of students. North Yorkshire county has the highest proportion of schools with under 50 pupils in the country.[188]

On the other hand, Harrogate as a district has an ageing population. There is a low proportion of under 29s and high numbers of over-60s compared with national figures. The population of over 65s expected to increase dramatically in the coming decades.[189] Amongst this group, under occupation and fuel poverty is high.[190] Without a genuinely affordable alternative, older residents have no option to downsize into smaller, accessible homes that are affordable to heat.

House prices are increasingly unaffordable for those on low to ordinary incomes across the local authority area.[191] In Harrogate's villages, demand for second homes, holiday lets, and commuter homes keeps prices high and out of reach for local earners. Harrogate's economic strategy identifies low local workplace earnings and a daily export of high earning residents as a significant economic challenge for the area, with 25% of the district's low wage economy located in rural areas surrounding the main town.[192] These differences can also drive affordability problems. Across Harrogate average house prices are nine times the median workplace-based salary but are eight times median residence-based salaries.[193] Homes are less affordable for people who work locally.

[185] Live tables on affordable housing supply, Table 1011C, MHCLG; Live tables on social housing sales, Table 691, MHCLG
[186] Economic Growth Strategy 2017-2035, Harrogate Council, 2017
[187] *Ibid.*
[188] Consultation to take place on closure of Dales school with ten pupils, North Yorkshire County Council, 20/12/2019.
[189] Housing strategy 2019-2024, Harrogate Council, 2019
[190] *Ibid.*
[191] Housing strategy 2019-2024, Harrogate Council, 2019
[192] Economic Growth Strategy 2017-2035, Harrogate Council, 2017
[193] Figures taken from ONS, Ratio of house price to residence based earnings 2002-2019, 2020, and ONS, Ratio of house price to workplace based earnings 2002-2019, 2020.

The availability of homes let at social rents, linked to lower local incomes are crucial in creating and maintaining thriving rural communities. But the loss of social rented homes is felt acutely in villages. Where large urban areas might have seen a proportion of their stock lost to the Right to Buy scheme, in many villages there are no social homes left.

Attractive rural areas, like those in Harrogate, struggle to deliver social housing at sufficient levels. High land values, high build costs and a lack of economies of scale drive down the viability of affordable housing provision in ordinary, small scale rural housing delivery.[194] Furthermore, restrictive rules governing how local authorities are able to spend receipts collected from Right to Buy sales push replacement social housing towards urban areas, away from where the sales actually take place.[195]

Just 9% of the housing stock in Harrogate is owned by the local authority or a housing association, significantly lower than the average across England (16%).[196] The council are developing plans to deliver more social rented homes through its own newbuild programme, but without enough grant and appropriate grant rates to support their efforts, the ability to deliver good quality, social rented housing in small rural areas will be limited.

The value of social housing to Harrogate's villages is clear. Good quality, genuinely affordable homes of different types and sizes are needed, to retain young families and workers, and to ensure accessible, adaptable accommodation is available for older residents to downsize into.

[194] Rural affordable housing briefing, CPRE, 2019
[195] Consultation response: Use of receipts from Right to Buy sales, Rural Services Network, 2018
[196] Live tables on dwelling stock, table 100, MHCLG

Deep inequalities in Kensington and Chelsea

Image credit: Oversnap

Box 12: Kensington and Chelsea snapshot

Key challenges:

- High housing need and homelessness
- Extremely high rents and house prices
- Income inequality

Key statistics:

- 2,260 households in temporary accommodation (January to March 2020)[197]
- £1,025,000: average first-time buyer house price (January 2020)[198]
- £1,777: lower quartile monthly private rent (2019)[199]

London's housing emergency is well documented; its consequences are plain to see. Inequalities in access to a safe, secure, affordable home are severe. At perhaps their most extreme is in the borough of Kensington and Chelsea.

Households across the borough are unable to meet their housing costs at an alarming rate; homelessness has surged. And in 2017, 72 residents lost their lives in the fire at Grenfell Tower in North Kensington - victims of decades of stigmatisation of social housing tenants, embodied in a regulatory system which

[197] Statutory homelessness in England: January to March 2020, Table A1, MHCLG
[198] UK house price index, HM Land Registry
[199] Private rental market statistics 2018-19, Table 2.7, VOA

did not take their concerns and their safety seriously enough.[200] The people of Kensington and Chelsea need more and better social housing.

At the start of lockdown, there were 2,260 households housed in temporary accommodation by the borough.[201] In the three months from January to March 2020, 255 households presented to the council and were assessed as being owed a homelessness duty. That's nearly three households becoming homeless or at risk of homelessness every day in Kensington and Chelsea alone.[202]

Kensington and Chelsea is the most expensive place to rent or buy in the country. Whilst the borough is home to many wealthy people,[203] for residents on low to ordinary incomes, many of whom live in the Northern part of the borough, there is no hope of meeting the cost. In January 2020, the median price paid for a home by first-time buyers across the borough was in excess of £1 million, over 20 times the median salary.[204] In 2019 lower quartile rents, at £1777 per month, took up over 70% of a full-time pay check for someone at the 30th percentile.[205]

Housing options that are tied to this exorbitant market such as First Homes or Affordable Rent set at 80% of market rents, will provide little relief for the residents of Kensington and Chelsea.

According to CORE data, actual weekly rents charged in 2018/19 for an Affordable Rented home in the borough averaged £191, whilst the average weekly social rent was £129. A difference of over £60 per week is significant and as a result Affordable Rent is not suitable for many households in the borough. This is reflected by the fact that the incomes of tenants that were let an Affordable Rent home were over £40 per week higher than those let a social rent home.[206][207] . Social housing is the only solution to Kensington and Chelsea's affordability crisis.

We must focus overwhelmingly on the provision of more social housing. There is a place for more affordable intermediate products as part of the tenure mix on some developments (including key worker housing, for example) but this is

[200] Grenfell United and Shelter have been campaigning for better, proactive regulation of consumer standards in the social housing sector since the fire at Grenfell Tower. Following the fire, Shelter began the Big Conversation on social housing. During this consultation, we listened to 31,000 people who gave their views on social housing. 16 expert commissioners – ranging from Grenfell Tower residents and community leaders to politicians from across the political spectrum, such as Baroness Warsi and Ed Miliband – then drew up recommendations based on these conversations. The commissioners found that the current system is not set up to proactively inspect and hold social landlords to account for the way they manage tenants and their homes – whilst the financial performance is closely monitored. This imbalance must be reversed. The commission's recommendations for a new and improved regulatory system can be found in the commission report: Building for our future: A vision for social housing, Shelter, 2019.

[201] Statutory homelessness in England: January to March 2020, Table TA1, MHCLG, 2020

[202] Statutory homelessness in England: January to March 2020, Table A1, MHCLG, 2020

[203] Kensington and Chelsea 'richest' area in UK with residents earning three times the national average, Evening Standard, 26/07/2019

[204] Shelter analysis of median gross full-time annual incomes and first-time buyer house prices from Annual Survey for Hours and Earnings, ONS, 2019 and UK house price index, HM Land Registry, 2020

[205] Private rental market statistics 2018-19, table 2.7, VOA; Annual Survey for Hours and Earnings, ONS, 2019.

[206] 2018 CORE Affordable Rent - general needs: Report for Kensington & Chelsea local authority area, MHCLG, 2019

[207] 2018 CORE Social rent - general needs: Report for Kensington & Chelsea local authority area, MHCLG, 2019

an expensive borough with a very limited range of housing options and the provision of more social housing is vital to ensure we can build mixed communities where all residents can thrive.[208]

Royal Borough of Kensington and Chelsea, Housing strategy 2019-2022

The borough desperately needs more social homes – and more family-sized social homes in particular. Average wait times for those on Kensington and Chelsea's housing list are long enough, at 3 years. For three and four-bedroom properties, the average waiting times are seven to 10 years.[209]

Kensington and Chelsea council has developed its own new build programme, with 300 new social rent homes to be built on council owned land.[210] But extremely high land values make it exceptionally hard for providers to deliver social housing anywhere else in the borough. The council need more support from central government. And not least because the borough has other urgent priorities.

The latest statistics showed that 27% of the council's housing stock was non-decent.[211] Significant investment is required to make much needed improvements to existing social housing in the borough, which was returned to council management from the previous tenant management organisation following the fire at Grenfell Tower. Large amounts of the council's available funds have also been dedicated to rehousing residents impacted by the fire.

Communities in Kensington and Chelsea shouldn't have to choose between being housed – and being housed well, and in the places they want and need to live. Investing in social housing can help make sure they don't.

[208] Housing strategy 2019-2022, Royal Borough of Kensington and Chelsea, 2019
[209] Housing strategy 2019-2022, Royal Borough of Kensington and Chelsea, 2019
[210] *Ibid.*
[211] Local authority housing statistics: 2018-19, Table F, 2020, MHCLG

PART 4: INVESTING TO BUILD BACK BETTER

The public health emergency has intensified the effects of housing emergency. Different parts of the country are being hit in different ways, but across the country low incomes families are at the sharp end of its effects. An increasing number need the support of housing benefit or are threatened by homelessness. The way out of it is addressing decades of underinvestment by building more social rented homes.

But now a new economic crisis is making the housing emergency even worse. It's cutting incomes and pushing households stuck with the burden of high private rents closer towards losing their home. Critically, the recession also threatens to cut off our capacity to build our way the housing emergency. Collapsing consumer demand for homes to buy is set to cut housebuilding, cut construction jobs and cut housebuilding's contribution to GDP.

Just as we need to invest in social housing to solve our homelessness emergency, investment in social housing also holds the key to saving our housebuilding capacity. Replacing lost consumer demand for homes to buy with grant investment in social rented housing is the tried and tested way that previous governments have softened the impact of previous recessions. Doing so will deliver many of the vital social rented homes we need, getting thousands of homeless families into decent permanent homes. And it will also rescue our new homes from the teeth of the recession, protecting jobs and boosting our economy.

We can't rescue housebuilding only to return to the way things were. A rescue package must be followed by a long term investment programme to break the back of our homelessness emergency. This final part describes the level of investment and other grant changes that are needed to do this and build back better.

Securing investment 1 – A New Homes Rescue Fund

We can't allow housebuilding to go through the downturn that Savills forecast, with hundreds of thousands of homes and jobs lost, let alone something worse. A deep recession, with a big loss of SMEs and jobs will likely put long-term constraints on the country's capacity to build the number of decent affordable homes we need, while putting the big, volume builders in a position to tighten their grip. Averting it is a matter of national importance. To do so, we need emergency support to prevent the impact of the recession leading to long-term damage.

Past governments, both Conservative and Labour, have delivered this emergency support through countercyclical stimulus investment in social housing to get housebuilding through previous recessions.

The current government can learn from this past experience by creating a two year £12.2 billion New Homes Rescue Fund, a significant grant fund to invest in social housing through the recession.

Box 13: Countercyclical social housing investment in previous recessions

A ‘countercyclical stimulus’ is government investment when the economy enters the downward phase of the economic cycle, i.e. goes into recession. As consumer demand for new homes in the economy contracts, government investment in new homes steps in to minimise the impact on the real economy, keep homes being built, keep people in work and keep housebuilding’s contribution to GDP going.

Global Financial Crisis

The government significantly increased investment in new social housing in the 2007 Comprehensive Spending Review, when signs of trouble in the housing market were still on the horizon (after the run on Northern Rock but before the housing market collapsed in the summer of 2008). The total grant for social housing was increased to £6.5 billion with a total of more than £10 billion invested in affordable housing in the three years 2008/09-2010/11, up from £7 billion over the preceding three years.[212][213] When the recession took its toll on the housing market in 2008, £200 million was used to buy unsold market homes. Subsequently, at the ‘fiscal stimulus’ pre-budget statement in October 2008, £150 million of the 2010/11 allocation was brought forward to be spent earlier in the programme when it was needed. Grant for social housing was used, for example, as part of the Kickstart scheme to get stalled sites moving, which also included capital for infrastructure and new finance.

The total effect was the biggest delivery of newbuild social rented and other affordable homes of the last twenty years. More than 100k social rented homes were delivered in three years 2008/09-2010/11, and more than 175k affordable homes in total.[214]

Early 1990s

The government was initially slow to increase investment in social housing to respond to the recession in the early 1990s. Similar to government action so far today, its first package of measures in December 1991 included a Stamp Duty cut and action with lenders to try to minimise the number of mortgage repossessions.

[212] Meeting the aspirations of the British people, CSR 2007, HM Treasury, 2007
[213] Table 62, UK Housing Review, CIH, 2019
[214] Live Table 1000C, MHCLG

By November 1992 it was clear this had only limited and short-term benefits. In the 1992 Autumn Statement, the government turned to investing more in social housing as a countercyclical boost. Starting from a higher base of investment in social housing, the Chancellor increased grant for England by £577 million, with the majority to buy newly built market homes (£1.2 billion in 2019 prices). This investment allowed for further funding to be leveraged from the private sector, leading to almost £1 billion of countercyclical investment (£2 billion in 2019 prices).[215] Total grant spend reached £4 billion in real terms in 1993.[216] As a consequence, delivery of new social rented homes rose from 26k in 1991/92 to more than 54k in 1992/93 and averaged over 50k a year to 1996/97.[217]

The New Homes Rescue Scheme 2021/22-2022/23 should replace the next Affordable Homes Programme (2021-2026), which was officially announced at the beginning of September[194] and is due to start in April next year. Effectively, the total pot of £12.2 billion grant already earmarked for the next Affordable Homes Programme would be accelerated to be spent over two years instead of five. This would increase the total amount of grant for affordable housing each year over the course of the programme from £2.44 billion to £6.1 billion. This spending would go a considerable way to mitigating the effect of the recession on our housebuilding capacity.

The New Homes Rescue Scheme would be a bigger stimulus investment than in either the Global Financial Crisis or the early 1990s recession, when total grant spending for affordable housing a year reached £4-£4.5 billion.[218] This reflects the fact that the need for social housing today is higher than it was in either the Global Financial Crisis or the early 1990s recession and the backlog of homes needed is greater. We need more grant now than we did then.

It also reflects the fact that arguably neither of these previous stimuli went far enough. In spite of the support they provided to mitigate the impact of the respective recessions, total housebuilding still slumped and the industry still took a long time to recover, if it even did recover. Housebuilding numbers in 2019 before the pandemic were still significantly below 1988 levels and had not reached the 1988 peak in any of the years between.[219]

So, the New Homes Rescue Fund is what the country and our housebuilders need to take us through the current crisis. Nevertheless, the timescales for it to be put in place and delivered are breakneck and there will be legitimate questions about whether Whitehall could deliver a grant programme of this scale. The £700 million underspend on the current – much smaller – Affordable Homes Programme does not augur well for increasing the budget. However, the cause of the existing underspend is an overly restricted programme that has diminished

[215] Institutional Responses to the UK Housing Market Recession. Urban Studies, 33(2), 337-351, Stephens, M., 1996
[216] A vision for social housing, Shelter, 2018
[217] Live Table 1000C, MHCLG
[218] A vision for social housing, Shelter, 2018
[219] Live Table 244, MHCLG

the role for social housing. Recommendations are made below for how we can change this, by putting social rented housing back at the heart of our grant programmes, and allowing us to deliver a much more ambitious scale of affordable housebuilding overall.

When we put our minds to it, the country has managed to ramp up and deliver large capital programmes to tight deadlines in the past. In the current crisis, the Nightingale Hospitals have been seen as the outstanding success and demonstrate our ability to build when we need to. And in the last recession the Homes and Communities Agency (HCA) – the predecessor of Homes England – was able to dramatically ramp up spending and delivered a programme three quarters bigger in 2009/10 than two years before despite only just having been established. Many of the people who worked on that programme then, such as Lord Kerslake, Chief Executive of the HCA at the time, are still involved in housing today.

Recommendation 1: create a two year New Homes Rescue Fund by accelerating the next Affordable Homes Programme to be spent over two years instead of five

Securing investment 2 – A Levelling-up Housing Programme

Saving the country's housebuilding capacity with the New Homes Rescue Fund is only the first step. While it would make more progress on delivering new social housing over a short period than has been achieved for decades, the central job of solving our housing emergency will only just have started. The main job of work – addressing the backlog of social housing that has built up over decades – will still lie ahead.

So, the two-year New Homes Rescue Fund must be immediately followed up with a long-term grant programme of sustained, substantial investment – a ten-year Levelling-up Housing Programme. This programme, with £12.8 billion annual spend committed for a whole decade, will deliver an average of at least 90,000 social rented homes a year. This the widely recognised level of delivery we need to fundamentally reset the country's level of social housebuilding and break the back of our housing emergency.

The Levelling-up Housing Programme, with enough grant for 90,000 new social rented homes a year is what the country needs to turn the tide on our housing emergency. But it will deliver significant benefits to the country and our economy as well.

Combined, the New Homes Rescue Fund and the first two years of the Levelling-Up Housing Programme would create a total budget for affordable housing over the next Comprehensive Spending Review period (2021/22-2024/25) of £37.8 billion. New research we have commissioned from Savills shows the extent of the benefit that the new investment proposed could make over just the four years of the next Comprehensive Spending Review. It would:

- Build 372,600 affordable homes, 173,100 more than current government plans, and all social rented
- House an additional 77,000 homeless households, over and above current government plans
- Support 718,000 job years, 341,000 more than current government plans
- Add £29.5 billion to the economy, £13.8 billion more than current government plans
- Deliver additional social value with a net present value of around £15 billion[220]

At this level of investment in new social housing, it will take at least a decade to address our current housing emergency. However, the next Affordable Homes Programme (2021 - 2026) is planned to last only 5 years.[198] Even a much higher level of overall investment than has been announced wouldn't be enough if it only lasted for such a short period.

So, the Levelling-up Housing Programme should last at least a decade, committing the country to the investment needed to break the back of our housing emergency. A commitment to a long-term programme will deliver benefits for both social housebuilding and the construction industry at large.

Longer grant programmes will give social housing providers the certainty they need to produce genuinely long-term business and development plans. Recent research by UCL found that it would mean they could buy new sites at the lowest possible prices and take them through the planning process themselves and minimise their dependence on land promoters. The same research suggested that it could also lead to social housing providers taking on larger, more complex sites, involving land assembly or remediation, unlocking sites that would otherwise only be developed by speculative developers. [221] It would also give councils more confidence to invest in their own development capacity and get back into building at scale.[222]

In turn a ten-year grant programme on the scale proposed could significantly improve the health of the housebuilding sector. Work by CAST and Harlow Consulting has shown that a ten-year affordable housing grant programme could drive big productivity improvements by giving builders confidence to invest more in setting up new businesses, in skills and new technologies, like Modern Methods of Construction.[223] Previous government research has shown that greater use of MMC alone could lead to a 70% improvement in productivity.[224]

Recommendation 2: announce a ten year Levelling-Up Housing Programme to deliver at least 90,000 social rent homes a year with £12.8 billion annual spend from 2023/24

[220] Macroeconomic Benefits of Social Housing Funding, Savills, 2020

[221] Double or Quits: The influence of longer-term grant funding on affordable housing supply, Dr Stanimira Milcheva, UCL, September 2020
[222] **Local authority new build programmes and lifting the HRA borrowing caps, CIH, 2020**
[223] Exploring the impact of long-term funding on the residential construction sector, NHF, 2020
[224] **Off-site manufacture for construction: Building for change, House of Lords Science and Technology Select Committee, 2018**

For this purpose, together with the New Homes Rescue Fund, a total of £37.8 billion of capital spending should be made available for affordable housing through the Ministry of Housing, Communities and Local Government in the Comprehensive Spending Review for years 2021/22-2024/25

Social rent-led investment programmes

To increase the number of social rented homes being built, we need to do more than just increase the total amount of investment going into the government's grant programmes. The reason grant funded social rented housing has fallen to less than 400 a year across the whole country isn't only because the total amount of grant is too small. It's also because has been deprioritised. Additionally, a series of rule changes and tweaks have been introduced that make it more difficult to deliver. These changes have included:

- Restrictions that mean new social housing is ineligible for government grant in large swathes of the country
- Inadequate levels of grant for each home that makes social housing unviable in large parts of the country
- The creation of new forms of affordable housing and their prioritisation for grant ahead of social rent

Together, deprioritisation and unfavourable rule changes mean social rent has ended up with the smallest slice of the pie. At the time of writing it is not clear whether the size of the slice for social rent will increase in the next Affordable Homes Programme (2021-26). But we do know that the existing plans will not see a return to the prioritisation of social rent. The government has announced that half of the homes built through the upcoming programme will be low-cost home ownership homes, and geographical restrictions still feature.

We need to reverse this, to make sure that social housing is given the highest priority for grant and can be delivered everywhere it is needed. In fact, by setting a minimum threshold of investment in social rent and cutting the onerous and unfair restrictions on social rent grant spending, we need to make sure it gets most of the pie.

Introducing an 80% floor on social rent investment

Over the last three decades, social housing has been increasingly marginalised within affordable housing grant programmes. The share of grant funded affordable homes that were social rent in 1991/92 was more than 86%. It was down to 60% by the end of the 2000s. In 2018/19 it was only 2%.[225] Several rule changes are needed in the way grant is awarded to get that level back up and allow social rent to be built again at scale. But we also need a guarantee that future grant programmes will be focussed on delivering social rent. We should do

[225] Live Table 1000C, MHCLG

this by setting a floor on the share of the budget that goes to building new social rent homes and it should be fixed it at 80% annually.

The 80% floor should be a minimum annual level of spending and not a target. The NHF/GLA modelling used to estimate the budget needed to solve the country's housing emergency assumes that 86% of the £12.8 billion budget will need to be spent on social rent.[226] Setting the floor lower than this level will give Homes England and the GLA some flexibility to spend marginally lower in some years and higher in others in line with the schemes that come forward for grant.

The floor on grant spending doesn't mean that other forms of affordable housing – particularly low cost home ownership like shared ownership – will no longer be delivered. Section 106 obligations are currently very important for delivering new social rent homes because it has been near impossible to deliver them with grant. With grant focussed on building new social rented housing, Section 106 can continue to play a role in delivering other forms of affordable homes.

Recommendation 3: set an 80% floor on social rent's share of future grant programmes

Setting realistic grant rates

As well as needing a larger total envelope for grant investment in social housing, the amount of grant investment that is available for each home – called the 'grant rate' – needs to increase. Present grant rates are too small to pay for new social rented homes in many of the areas that need them and have been widely criticised for effectively making the delivery of new social rent impossible.

Social rent homes typically require subsidy to build because the value of the future rental income isn't big enough to cover the costs of buying land on the open market and building the home. Government grant's job is to fill the funding the gap between this anticipated future revenue and development costs. However, where grant rates are not big enough to fill the gap, then developing the home isn't viable. In other words, it would be loss making, which isn't a sustainable business model for any social landlord to pursue.

The implied grant available in the current Shared Ownership and Affordable Homes Programme (2016 – 2021) is £72,600, less than half the £162,000 average grant per home the National Housing Federation estimate would be required over a ten-year programme outside London.[227][228] In London, grant rates for social rent are up to £100,000, but the funding gap is also wider in the capital because development costs are higher, meaning grant rates remain significantly below the level needed.[229]

[226] Capital Grant Required to Meet Social Housing Need in England 2021-2031, NHF, 2019
[227] Increasing Investment in Social Housing, Capital Economics, 2019
[228] Capital Grant Required to Meet Social Housing Need in England 2021-2031, NHF, 2019
[229] Building Council Homes for Londoners, GLA, 2018

Ceilings on grant rates are only part of the mechanism that keeps them too low to deliver new social rented homes in many of the areas that need them. The other problem is the priority that is given to the lowest grant schemes when the government agency – Homes England – determines which schemes will get government investment.

At present, bids for government grant go through several stages. First, they must meet a limited number of low bar bid requirements. Then all bids are ranked against two criteria: "value for money" and deliverability. Value for money is an important principle, but here it's just used as a euphemism for the cheapest. The current grant programme prospectus explains that the "key consideration in assessing value for money is the level of grant requested per home… a lower grant request per home will score more highly."[230] This ranking is then used to make an initial selection of schemes, meaning that only once schemes have already been sifted to select the cheapest is any qualitative assessment made of the bid (although at present the terms for qualitative assessment are limited).

Guidance attached to the next Affordable Homes Programme (2021 – 2026) better reflects this – the term "value for money" has been replaced with "cost minimisation". And cost minimisation remains the "primary assessment metric".[231]

Social rented housing has the lowest rents of any type of affordable housing, and the most genuinely affordable for people on low incomes. This means that the gap described above between future rental income and development costs is typically bigger for new social rent than other types of affordable housing. The grant rates required are consequently also bigger. In places where market housing is less affordable development costs are also higher, meaning social rent takes more grant to deliver in those places. Even in a world where ceilings on grant rates had been lifted, any system that gives so much weight to sifting bids for those that are the cheapest will make it more difficult to deliver new social rented homes in places they are needed.

To deliver social rent where it's needed, the existing terms on which schemes are prioritised for grant – the bid assessment criteria – needs an overhaul. In the context of the recession, the Local Government Association has called for government to "reduce if not eliminate" the requirement for competitive bidding entirely.[232] Increasing the total envelope for grant will itself significantly reduce the pressure to only fund the very cheapest schemes. But getting genuine value for money, not just doing the cheapest option, is important in any government investment programme. So, careful consideration of the cost of any scheme and the need it satisfies will be a necessary part of any determination of which to fund. The key to value for money is putting the cost of the scheme into context, not ignoring the cost of the scheme. This is what should be achieved by the new bid assessment criteria.

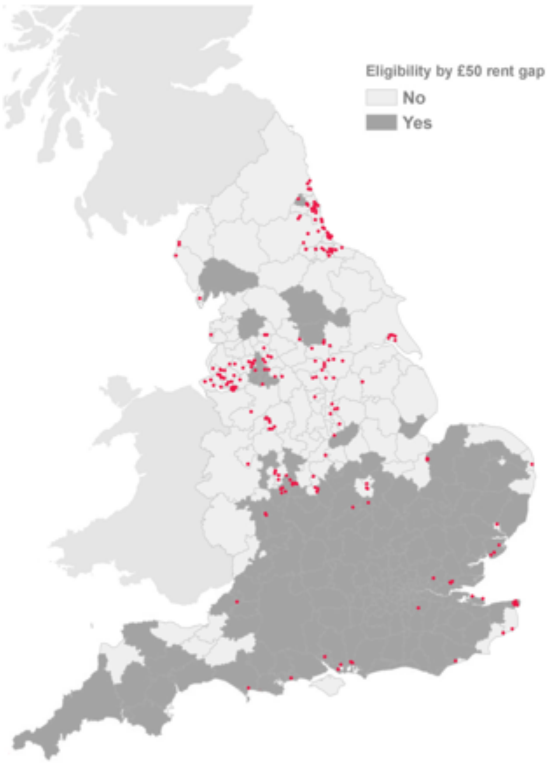
[230] Shared ownership and affordable homes programme 2016 to 2021 prospectus, MHCLG, 2016
[231] Apply for affordable housing funding, MHCLG, 2020
[232] Delivery of council housing – developing a stimulus package post-pandemic, LGA, 2020

Recommendation 4: increase the available grant per new social rented home, lift grant ceilings and overhaul the existing bid assessment criteria so they don't only prioritise the lowest grant schemes

Making sure no area is left behind

In addition to insufficient grant rates, eligibility for investment in new social rented housing is geographically restricted in the current Affordable Homes Programme (2016-2021). As a result, most of England north of Birmingham and significant stretches of southern coastal areas are currently ineligible for government investment in new social rent housing. This restriction particularly affects areas that have been described as 'left behind' by the Local Trust.[233]

Figure 21: overlap between areas that can't access grant for social rent and have been described as 'left behind'



Geographical restrictions in the current programme have arisen because of the '£50 rule'. When grant for social rent was reintroduced on a small scale into the current investment programme in June 2018, housebuilding schemes that were in local authority areas where the gap between average market rents and average social rents was £50 a week or more could access grant for social housing, while those where it wasn't couldn't.

The latest guidance for prospective bidders to the next Affordable Homes Programme (2021-2026), has retained a form of geographical restriction. The

[233] Left behind? Understanding communities on the edge, Local Trust, 2019

guidance states that: “social rent homes can be funded within areas of high affordability challenge, or elsewhere provided that the grant requested is not higher than it would be for Affordable Rent.”[234] At the time of writing, it is not clear whether the definition of “high affordability challenge” will increase the number of areas that meet the delivery criteria, or indeed be any different from the £50 rule.

Further, restricting grant rates to the level of grant required for Affordable Rent in areas that do not meet the criteria will also prevent many places from getting the social rent homes needed. Where social rents are cheaper than Affordable Rents (see case studies 2 and 3), the expected future rental income for a property of the same type and size is less for social rent than it is for Affordable Rent. As explained above, the grant rate required will be higher. Capping grant rates at the Affordable Rent level will mean that the gap between anticipated future revenue and development costs will remain on these social rent schemes. This will drive down the viability of delivering social rent in places like Cheshire East and Wolverhampton. Extending eligibility for new social housing grant will only be meaningful if grant rate ceilings are lifted.

Ostensibly, such restrictions are used to ‘target’ very limited new funding for social rent at the places that need it most. But in addition to ruling out large swathes of the country from getting new grant for social rent, blunt tools like the £50 rule are a poor basis on which to target. At £2600 over the course of a year, £50 a week is a large gap to pay for someone on a low income. “High affordability challenge” will also be a poor indicator for where social housing is needed, however that definition is constructed. Local authority areas are typically large. Taking an average from across the whole district doesn’t account for variation within it. Nor do simple measures of affordability account for the actual housing need within a local authority area and the many ways in which it can arise.

If geographical restrictions remain in place, we will never build new social rented homes in all the areas they are needed. Social housing providers in the North of England have warned that a continuing two-tiered system based on basic affordability metrics is “out of kilter” with the levelling up agenda.[235] So, as part of increasing the size of the overall grant programme for social rent, the proscription on building new social rented homes with government grant in large parts of the country must end.

[234] Apply for affordable housing funding, MHCLG, 2020
[235] Affordable Homes Programme branded a ‘disappointment’ for social rent homes in the North, Inside Housing, 14/09/2020

Recommendation 5: remove geographical restrictions on eligibility for grant for new social housing

Making social rent the principal type of new low rent housing

To keep new programmes focussed on social rent, solve the housing emergency and achieve a reduction in the housing benefit bill, it doesn't make sense to continue to fund new Affordable Rent housing.

Affordable Rent was created in 2011 at the same time that the total grant budget for affordable housebuilding was cut and new social housing was defunded. It became the principal form of rented affordable housing the government funded. The language around Affordable Rent is obfuscating. This is because the only meaningful difference between social rent housing and Affordable Rent housing is that Affordable Rents are typically significantly *less* affordable than social rents. The average rent on a new letting for each is:

- 51% of market levels for social rent
- 70% of market levels for Affordable Rent[236]

And those are just averages. Affordable Rents can be set at up to 80% of market rents and as social rent levels act as a floor on Affordable Rents, there are no outlier cases where they are lower.[237]

Introducing Affordable Rent meant that a smaller total level of grant could be made to stretch further. Higher rent levels made the gap between future rental income and development costs smaller, meaning a lower grant requirement on each home. The clear problem is that low income households find it more difficult to pay Affordable Rents. Grant levels were lower, but only at the expense of fulfilling their central purpose less well. As a result, a low income household needs more help from the welfare system – from housing benefit or Universal Credit – to pay a typical Affordable Rent than social rent. In effect, this shifts the cost of building new rented affordable housing from one off, up-front grant investment onto the housing benefit bill and makes it harder to cut the housing benefit bill by building.

There are also major downsides for low incomes households of being forced to pay a higher Affordable Rent and claim more in benefits. If they are lucky enough to get the home, they would have to increase any earnings significantly more before they escape welfare tapers.[238] And that's if they are lucky enough to get the home. The combination of the introduction of Affordable Rent and tighter welfare means that many landlords letting Affordable Rent properties now have

[236] Social housing lettings in England, April 2018 to March 2019, MHCLG, 2019
[237] Policy statement on rents for social housing, MHCLG, 2019
[238] The Universal Credit taper is 63%. This means if someone on the housing element of Universal Credit increases their earnings by £1 their UC is reduced by 63p, so they are only net 37p better off. If they pay a low rent they can afford without housing benefits, in contrast, they receive net £1 for every £1 their earnings increase

stringent affordability assessments.[239] Perversely, these assessments can reject low income households for Affordable Rent homes because their incomes are too low. Affordable Rent, which is supposed to be there to help people who can't afford a home in the market, bars people from getting help because they need too much.

As a result, social landlords have become increasingly sceptical of letting out homes at Affordable Rents and some, including large developing housing associations, have said they will stop.[240]

If social rent is properly funded with a larger overall envelope for grant funding and more realistic grant rates, the charade of cost shunting onto the housing benefit bill by grant funding Affordable Rent can end. There is no credible reason to continue to include it in future grant programmes.

Recommendation 6: remove Affordable Rent from eligibility for future grant

Additional flexibility for exceptional times

The current Affordable Homes Programme (2016-2021) is overwhelmingly designed to deliver entirely new housing development schemes. In normal economic times, this makes sense. It contributes to the delivery of new housing supply and ensures that new homes are genuinely additional. However, to limit the damage to the country's housebuilding capacity and keep the pipeline of new homes moving through the current recession, the New Homes Rescue Fund will need to be deployed more flexibly. Waiting for completely new schemes to be developed would take too long and leave existing, distressed schemes without help. Flexibility will mean it can be spent where it's needed at the point that it's needed, including, for example:

- Topping-up grant on existing stalled schemes to 'flip' other affordable units to social rent
- Grant to purchase market homes on stalled sites for social rent

The Affordable Housing Commission has recently made proposals for similar flexible spending with a £1.3 billion National Housing Conversion Fund. Their proposal is the fund to be spent on purchasing and improving poor quality properties in low demand areas (see Blackpool case study), and to buy homes on stalled sites.[241]

To illustrate the role that grant for social housing could play in unlocking stalled sites in a housing downturn, we commissioned Savills to develop a series of plausible site scenarios of different sizes and locations. These ranged from a 3,000 urban extension in the Milton Keynes area to a small development in

[239] The affordability of "affordable" housing in England: conditionality and exclusion in a context of welfare reform, Preece, Hickman & Patterson, Housing Studies Volume 35 Issue 7, 2020
[240] Exclusive: Peabody plans to stop charging affordable rent, Inside Housing, 02/05/18
[241] A National Housing Conversion Fund, Affordable Housing Commission, September 2020

Greater Manchester. On each site social housing grant was deployed to either 'flip' homes from other affordable housing tenures to social rented housing or purchase market homes for social rent. Savills modelled what grant rate would be required and how many social rented homes would be delivered to make the site viable and calculated the other benefits that would be delivered as a result. This included the number of construction jobs that would be supported across the whole scheme, the number of market homes that would also be delivered as a result of the investment unlocking the site. A summary of the findings are included below and the full results can be found in Appendix 2.

Table 2: Summary of findings of Savills' research on potential to unlock stalled sites with social rent grant

Summary	Location	Grant rate	Social homes delivered	Jobs supported (PA)
3,000 homes urban extension on greenfield land	Milton Keynes	£124,166	805	268
Smaller self-build up to 9 units in a lower value urban location	Outer Manchester	£90,506	2	13
Redevelopment of a former industrial site for residential, with a 50%/50% market to affordable homes split	Outer London	£112,000	125	399
30 unit development in a urban town centre location	Outer London	£144,571	3	89
80 homes and units scheme in a lower value rural location	Norfolk	£155,357	28	140

Savills' research shows the critical role that grant for social rent could play in making unviable sites viable in the event of a housing downturn, but the Affordable Homes Programme must allow for grant to be used flexibly.

Recommendation 7: allow for greater flexibility in grant spending while the economic crisis continues, including funding schemes for purchasing distressed market schemes and converting shared ownership to social rent where it contributes to protecting housebuilding capacity

Shelter helps millions of people every year struggling with bad housing or homelessness through our advice, support and legal services. And we campaign to make sure that, one day, no one will have to turn to us for help.

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