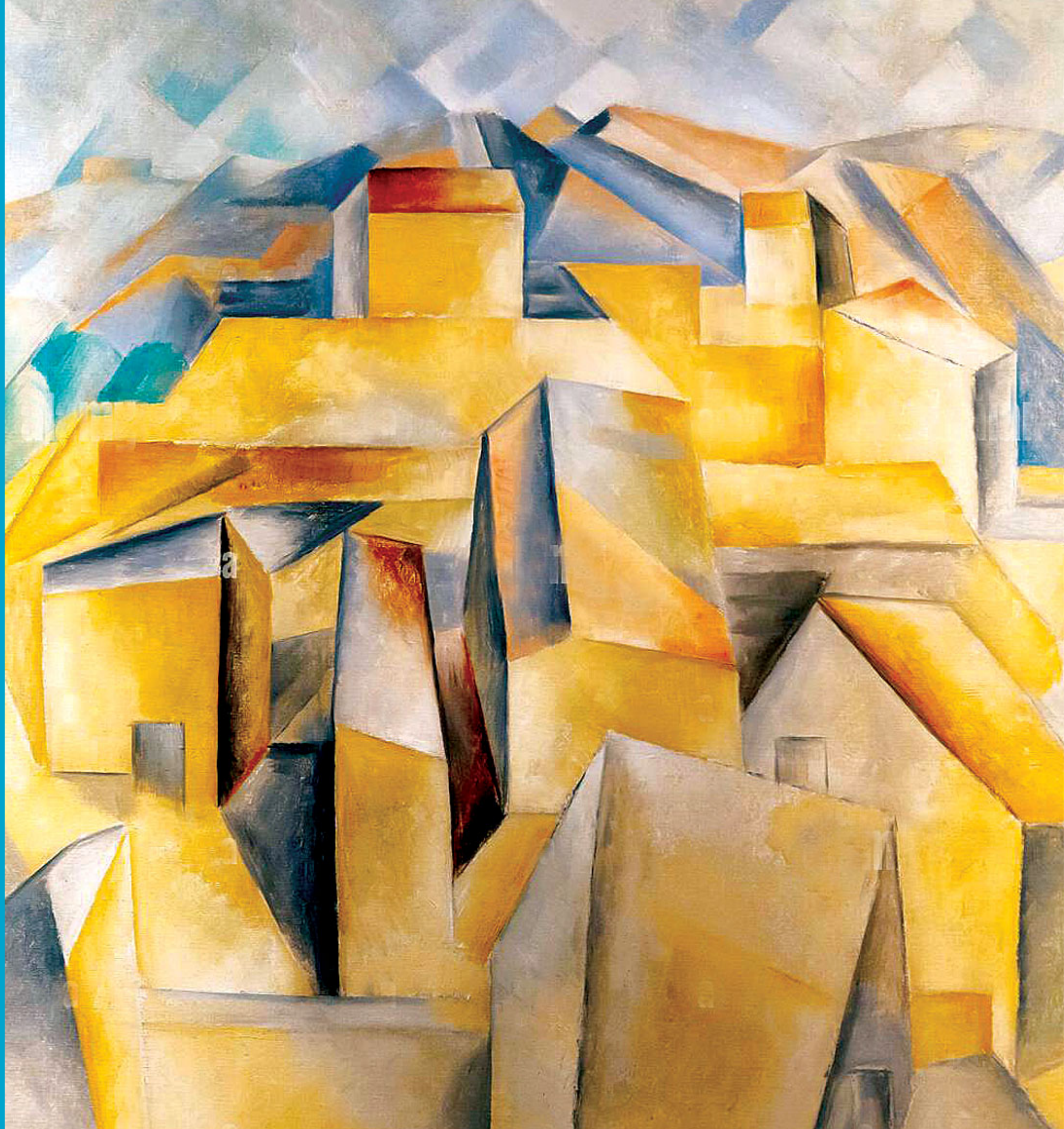
HOUSING POLICY IN A CHANGING WORLD

A UK Housing Review Reader

Edited by Mark Stephens

Chartered Institute of Housing

University of Glasgow



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Preface

The *UK Housing Review* has provided a key resource for busy managers and policymakers across both public and private housing sectors for more than 30 years. It has been described as the 'bible' for the housing sector because of the statistics and analysis which it has provided every year. Much of the material, including from many years of back editions, is available on the *UK Housing Review* website.

However, until now many of the recent Contemporary Issues chapters, which give important insight into key areas of housing policy, have only been available to those purchasing the *Review*. With help from the University of Glasgow where the *Review's* editor Mark Stephens is based, the CIH is now publishing this *Reader* as a service aimed particularly at students of housing. It puts together a selection of the most recent Contemporary Issues chapters, grouped into appropriate themes.

As someone who has supported the Review since its inception, I warmly welcome this development and commend it to everyone as a further step in making sure that the *UK Housing Review* remains as useful and widely used as possible.

Lord Richard Best

August, 2023

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Introduction

The *UK Housing Review* addresses the trends in housing policy which are most prominent when each year's edition is being compiled. Taken together over a period of 5-7 years, its articles provide a wide-ranging analysis, covering the spectrum of recent policy developments. The collection made for this *Reader* brings together a structured selection of this material, covering a period in which a unique combination of events has shaped the policy environment.

Since the global financial crisis (GFC), housing policy in the UK has developed within the context of frequent economic turbulence and political flux. Brexit accounts for much of the political flux reflected in the UK having five prime ministers of the same party in less than seven years. The stagnation of productivity and of living standards since the GFC was followed by the shock of Covid-19, causing the economy to be closed down, and just as recovery seemed to be secure, Russia's invasion of Ukraine sent energy prices spiralling just as supply chains were already causing inflation to rise. The Bank of England's Monetary Policy Committee was forced to raise Base Rates to counter inflation with the consequence that the era of ultra-low interest rates that mortgagors had enjoyed since the GFC drew to a close.

This book is intended to assist readers who are interested in navigating the evolution of key aspects of housing policy and the housing system over this period.

It consists of 17 Contemporary Issues chapters first published in editions of the *UK Housing Review* from 2017 to 2023. These chapters are divided into six sections, the first of which provides an overview of 30 years of housing policy, and a framework which identifies three "spheres" of housing (production, consumption and exchange) that provide a structure for the book.

The second part of the book focuses on housing supply. Whilst policy makers tend to treat supply as being synonymous with the private housebuilding sector, it is important to remember the vital role played by social landlords. The UK's overall housing supply has never recovered from the deep cuts in the social housing capital budget that occurred in the 1970s arising from the IMF's 'bailout'. In the context of fiscal austerity, social and affordable supply has come to reply on alternative mechanisms, notably developer contributions delivered through the planning system. Yet the planning system alone cannot explain the failure to supply enough housing. The increasing concentration of the housebuilding industry, the speculative business model on which it relies and the drip feeding of the market to prevent new supply driving down prices and suppressing profitability are vital parts of the story. That story of housing supply is not merely one of quantity: the quality of housing matters too, not only for the health and wellbeing of the population, but the challenge of meeting zero-carbon targets.

The third section of the book moves to how we consume housing, notably through the tenures we inhabit. Tenures are dynamic entities, and their characteristics – or the meaning we attach to them – change over time. Not least due to the on-going impacts of the right to buy, social housing now performs a safety net function for low-income households, whereas it used to assist a much wider spectrum of the population so they could enjoy higher space standards at affordable rents. Poorer tenants – in both the social and private sectors – found themselves at the sharp end of the austerity policies adopted after 2010, as the government limited entitlements to housing benefits directly by limiting eligible rents or indirectly by placing housing assistance first in line to be clawed back through mechanisms such as the benefits cap. Meanwhile, many households who in previous generations would have become homeowners found themselves priced out of ownership and reliant on the expensive and insecure private rented sector. Reform was underway in Scotland and Wales, and an end to 'no fault' evictions was promised in England. Meanwhile, the internet facilitated the emergence of the short-term lettings market with profound impacts on some neighbourhoods.

The fourth section examines housing finance, particularly in the social and affordable housing sectors. After years of declining grant levels, housing associations have become more reliant on private finance and cross-subsidisation from for-profit developments, and more recently the rise of equity investment. Land value capture through the planning system also plays a crucial role in securing social housing especially in England where the new supply of social rented housing became reliant on this mechanism.

The final section of the book turns to the future of housing policy. As the country emerged from the Covid-19 pandemic, it became clear that the period between the GFC and the pandemic had been a 'lost decade' during which time the kind of reset and strategic overview of the housing system that was sorely needed never took place. The role of monetary policy, how the state can play a more active role in housing supply and the shrinking safety net are all areas crying out for policy development.

Of course this book does not cover every aspect of policy in detail. Developments in homelessness, the private market, social security and housing expenditure plans can be found in the relevant Commentary Chapters of the main annual edition of the *Review*, and often in the *Autumn Briefing*. Readers will note the frequency with which policy is diverging between England and the other nations of the UK. Updates on developments in Scotland, Wales and Northern Ireland can be found in every edition of the *Autumn Briefing*.

Readers should note that chapters have not been updated since they were first published. Only major anachronisms have been removed, and tables and graphs renumbered. The year of their original publication is marked clearly at the start of each chapter. Especially for chapters which are as much as six years old, the reader should take account of the likelihood that subsequent events will have affected the analysis even though, of course, their selection for this *Reader* is because of their continued relevance.

The *Review* website also hosts the most comprehensive all-in-one-place collection of housing and housing-related statistics, which can be used to update many of the tables and graphs in this book. Where references are made (for example) to the regular Commentary Chapters and to the Compendium of Tables (usually referenced by table number), readers are invited to consult either the latest edition of the *Review* or the Commentary Chapters and up-to-date tables posted on its website (www.ukhousingreview.org.uk/).

Mark Stephens
August, 2023

Part 1 Overview and Framework

Chapter 1

Thirty years of housing policy in the UK: The big picture

Mark Stephens

UK Housing Review 2022

Introduction

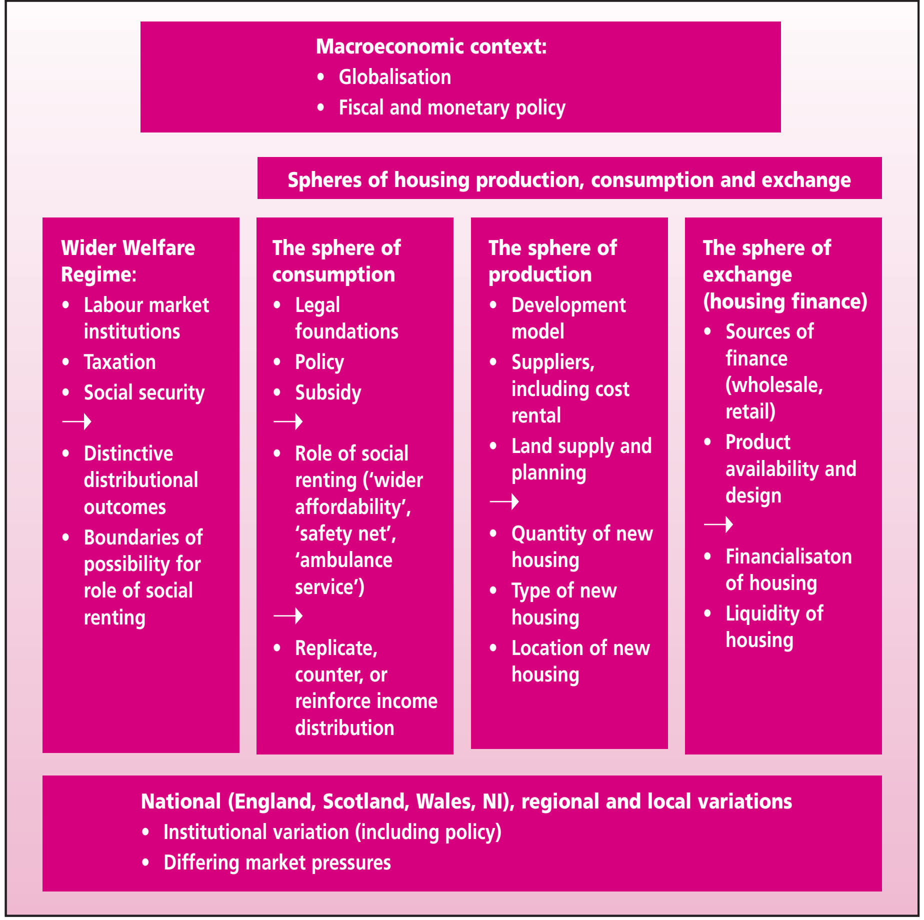
It is three decades since the *UK Housing Review* first appeared (as the UK *Housing Finance Review*). Five years ago, Steve Wilcox, the founder of the *Review*, reflected on its first quarter century. 'The *Review's* primary purpose,' he wrote, 'has always been to try to make the statistics on the housing market and housing policy, and their wider context more readily accessible and understandable for a wide public...'[1] He highlighted the right to buy, changes in social housing finance, and the way in which the UK's unusually restrictive public expenditure conventions continued to limit investment in housing.

The 30th anniversary edition provides another opportunity to reflect on the changes in the UK's housing system over this period, and briefly to consider what this tells us about the future. Here I have taken the opportunity to take a step back and to examine how housing policy operates, involving complex interactions not only between different parts of the housing system, but between the housing system and broader institutions. It is striking how rarely government seeks to understand housing in this way – to see the big picture. There are perhaps only two examples in five decades. The Labour government in the 1970s conducted its multi-volume review of housing policy, which was published as a green paper in 1977.[2] In 2005, the Office for the Deputy Prime Minister published another multi-volume study, an evaluation of English housing policy, which I had the good fortune to lead. It produced an overview based upon five themed reports and supported by a chronology and statistical analysis compiled by the late Alan Holmans.[3]

To help make sense of the 'big picture' now, this chapter examines housing system change in a structured way, adopting a framework that developed from my comparative studies of international housing systems (see Figure 1.1.1).

The framework emphasises the context in which housing systems operate. It identifies macro-level drivers which include the development of a more globalised world economy, and changes in the ways in which monetary and fiscal policy operates. It also considers the role of labour market institutions, and the redistribution of income that takes place through the tax and social security system. Income levels and income distribution (including poverty rates) play vital roles in households' (relative) purchasing power in the housing market.

Figure 1.1 **A framework for examining housing systems**



Source: Author.

The housing system itself is considered through three 'spheres': of housing consumption, housing production (or supply), and exchange (or finance). The sphere of housing consumption includes the legal foundations of property ownership and tenure, taxes and subsidies that affect housing consumption, and the role of social rented and other affordable housing. The sphere of production encompasses questions of land supply and land use planning, different providers of new housing and development models used by the housing construction industry. The sphere of exchange refers to the nature and role of housing finance: its sources, providers, products, regulation, and the way in which it impacts on the liquidity of housing.

The framework also allows for geographical variation in housing systems. We can distinguish between institutional, including policy, variations and those variations that arise from differing market pressures. Institutional variations have become more pronounced especially since the establishment of parliaments and assemblies in Scotland, Wales and Northern Ireland. Market pressures, arising from diverse demographic and labour market circumstances, mean that housing systems may operate in different ways even within the same institutional framework.

The macro-level context

When the *Review* was first published, the UK and other advanced economies were still transitioning from a relatively high-inflation and nominal interest-rate environment to one where consumer-price inflation was subdued, nominal interest rates came down, and a period of steady economic growth ensued until the credit crunch in 2007 and global financial crisis in 2008.

These changes reflected structural change in the world economy, which broadly can be identified as being part of the globalisation process: the reduction in trade barriers between the emerging trade blocs, the much greater mobility of finance assisted by technological development, and to an extent the greater freedom of movement of people. Globalisation was exemplified by the integration of China into the world economy with the country becoming a full member of the World Trade Organisation in 2001. The rapid urbanisation of China facilitated a relative shift in manufacturing to China (and other south-east Asian countries) whose economic model was based on cheap labour facilitating export-driven growth. High savings rates in China also helped to facilitate an abundant supply of finance which helped to drive debt in the West, and to integrate financial systems across the world.

Economic management in the West followed a consensus that demanded relatively passive fiscal policies (and deficit constraint) as greater emphasis was placed on monetary policy. Fiscal 'constraint' in times of steady economic growth nonetheless allowed steady increases in public spending. Reflecting a near consensus among economists, operational independence was granted to central banks where it did not already exist, with the German Bundesbank held to be an exemplar.

Greater emphasis was placed on maintaining growth and employment in the parameters set for the US Federal Reserve and the UK's Monetary Policy Committee of the Bank of England (granted independence in 1997) than for the European Central Bank (established to manage the euro in 1998). Nonetheless, the underlying assumption in the West was that removing politicians from responsibility for day-to-day decisions on interest rates would better allow technocrats to target inflation without heed to the political consequences of increasing electors' (mortgage) interest rates.

This model of economic management remained unchallenged until the global financial crisis (GFC). Governments initially responded to the crisis with a fiscal expansion, co-ordinated internationally to prevent a full-scale slump. However, they then shifted towards consolidation after Ireland, Greece, Spain and Portugal experienced sovereign-debt crises – when the markets became reluctant to lend to these countries' governments at affordable interest rates. The countries experienced enforced austerity as a consequence of agreements with the IMF, European Commission and European Central bank.. The UK's Coalition government, formed in 2010, chose to adopt a policy of fiscal austerity which dominated the following decade, citing the prospect of a sovereign debt crisis should it not provide a clear signal to the markets that it was serious about cutting the deficit.

In the circumstances of the GFC and beyond, the notion that the job of a central bank was an essentially technocratic one of adjusting interest rates to meet inflation targets proved to be unsustainable. Central banks cut interest rates to boost demand during the GFC, but subsequently found that the recovery was so weak that they had to be maintained at historically low levels.

Further, such was the extent of the GFC that central banks, having all but exhausted the potential for reducing interest rates, adopted unconventional forms of monetary policy, notably quantitative easing (QE). QE involves the creation of electronic money by central banks with which they purchase private or government bonds, with the intention that this frees up capital on the banks' balance sheets and incentivises them to lend to the private sector. A consequence of QE – acknowledged by central banks – is that it tends to inflate asset prices (including property). Amid sluggish economic growth after 2010, house prices (at least in globally connected cities such as London) tended to rise strongly, reigniting debates about whether central banks should target asset prices in addition to consumer prices.

The advent of the Covid-19 pandemic caused unprecedented – if temporary – economic contractions as economies were locked down in 2020. This necessitated equally dramatic expansions in government expenditure. QE programmes were reinvigorated and aimed principally at purchasing government bonds, in effect to finance budget deficits. This meant that the boundary between monetary and fiscal policy had become somewhat hazy at least, or even had broken down altogether. A lasting impact of the pandemic will be to reconfigure again the role of central banks in macroeconomic management. Whilst the immediate focus is already on the possible role of monetary policy in contributing to the re-emergence of consumer price inflation (as monetarists argue it must), these debates surely cannot avoid the management of property prices, which again have been inflated by the policies adopted to counter the economic impacts of the pandemic.

The wider welfare regime

Many of the Thatcher-era reforms to the labour market had been intended to make it more flexible by weakening the power of the trade unions and insisting that much of the public sector adopt practices such as contracting out. This approach was part of a broader shift in economic management away from government seeking to maintain demand for labour, and instead making labour supply more adaptive to demand by placing more responsibility on individual workers to find jobs.

Although unemployment rose again in the recession of the early 1990s, thereafter it fell to levels that many economists had assumed would never be attained again in the post-Keynesian era. An impact of the changing labour market in the 1980s had been a rise in part-time, often female employment, whilst full-time male employment declined. In the 1990s there was much concern about the labour market becoming polarised between 'work-rich' two-earner households, and 'work-poor' no-earner households. Further, whilst employment levels rose overall, wage inequality also increased. Whilst the labour market appeared to be remarkably robust in response to the GFC in the sense that unemployment did not rise by as much as expected, this masked a good deal of self-employed work, underemployment and a growth in casualised work, such as zero-hour contracts. Politicians continued to promote employment as being the best route out of poverty, but as numbers of low-wage jobs grew, most people who live in poverty now live in a household where someone is in work. The decade after the GFC was marked by high levels of employment, but weak productivity (for reasons that are not fully understood) and low earnings growth.

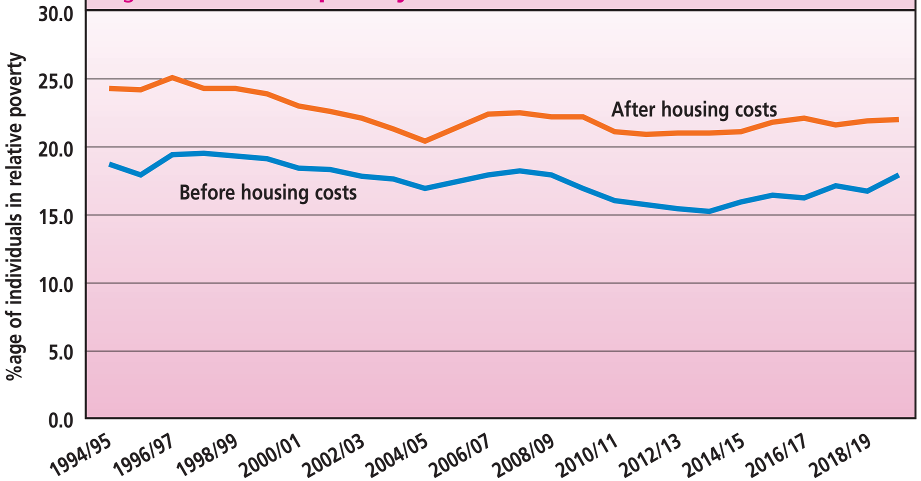
The social security system had been reformed a few years before the *Review* first appeared. In 1988 reforms to means-tested benefits were introduced which effectively aligned the poorly co-ordinated set of benefits aimed at assisting low-income households with their housing costs (housing benefit) and low-wage families with children (family income supplement which became family credit) with the baseline safety-net benefit (income support). The Labour government (1997-2010) subsequently developed a system of means-tested tax credits that redistributed income first to households in low-paid work with children and later to all qualifying people in low-paid employment as part of its strategy to 'make work pay'. They were further used to increase support to people with children (regardless of employment status) as part of a strategy to reduce child poverty. Pensioner poverty was reduced by the introduction of a much more generous system of means-tested support (now known as pension credit). The principal groups that were not supported so generously were working age single people and childless couples, particularly those aged under 25.

The Coalition government (2010-15) in turn put in place a new system, which is intended to simplify the benefits system by replacing six benefits for working-age households with a single universal credit. Whilst there was much support for such administrative simplification, it was combined with the policy of fiscal austerity. A series of cuts substantially weakened the safety-net aspect of the social security system for those of working age. While the government pledged to protect pensioners, these cuts were directed at households with children, households in lower-paid work with or without children, people with disabilities, and households with relatively high housing costs. The benefits cap and two-child limit in particular affected households with larger families and with higher housing costs, initially disproportionately in London but thereafter across the country (cuts to housing assistance are discussed in more detail below). A more punitive system of sanctions was also established, which fell disproportionately on younger people already disadvantaged by entitlement to lower rates of unemployment-related benefits.

A freeze on the cash value of most working-age benefits between 2016 and 2020 squeezed incomes further. In contrast until 2022, pensioners were fully protected through the 'triple lock' and indeed many benefited from the introduction of a more generous state-pension system that has reduced reliance on means-tested pension credit.

The result has been that poverty has remained relatively high since the 1980s. Some reductions in poverty were achieved, notably among households with children and among pensioner households, but these have now halted or in the case of households with children have reversed since 2015. Indeed, as the safety net has been weakened – and with more gaps appearing in it – the growth in destitution has been reflected in the growth in voluntary-sector food banks.

Figure 1.2 **Relative poverty rates, 1994-2020**



Source: DWP, Households below average income.

Housing consumption

When the *Review* was first published, the UK was developing a tenure system with each tenure performing distinctive (if overlapping) roles. The twentieth century had experienced the growth of owner-occupation and social rented housing (overwhelmingly in the form of council and some other forms of public housing, notably new town corporations). The once-dominant private rented sector gradually shrank due to a range of factors which included compulsory purchase for demolition in slum-clearance programmes, and sales to tenants and others as rent controls made renting an increasingly unattractive proposition for investors.

There have been two principal shifts in tenure and its nature during the lifetime of the *Review*. First, the shift from social renting to owner-occupation has continued across the UK for most of the period. The right to buy policy continued to lead to the transfer of dwellings into owner-occupation. Although the policy has now been ended in Scotland and Wales, it was 'reinvigorated' in England by the Coalition where it continues to diminish the stock of social dwellings (see Chapter 11).

Along with the low level of new supply, the social rented sector has increasingly assumed the role of a 'safety net' – being targeted on those most in need including those rehoused under local authorities' duties towards homeless households.[4] The rise in poverty in the 1980s also contributed to the creation of this safety net sector, with the housing benefit system becoming an integral part of this by protecting post-rent incomes of most social tenants.

The safety-net role of social rented housing has been maintained in Scotland, Wales and Northern Ireland. However, in England it has been challenged partly because of greater pressures, especially in high-demand areas such as London, and because it was questioned by the Coalition (which introduced the 'Affordable Rent' system) and David Cameron's short-lived majority Conservative government (2015-16). It was during this period that contentious legislation was put in place to ensure social housing was targeted at those most in need through the 'pay to stay' policy for better-off tenants. There was also greater use of probationary and fixed-term tenancies moving the 'safety net' towards an 'ambulance service' model providing temporary assistance for the neediest. However, the bulk of proposals were abandoned or not implemented,[5] and broadly speaking the safety-net model has been retained, although it is less accessible than in the past.

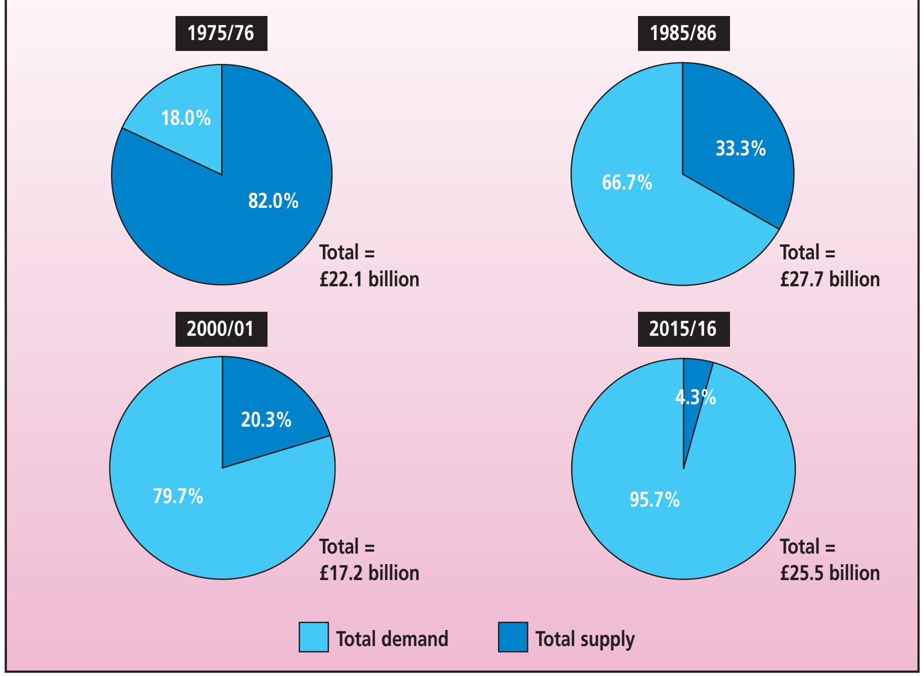
The deregulation of new private sector tenancies in 1988, which in effect ended rent controls and security of tenure, took some time to have full effect. It required a few years before the longevity of the new arrangements could be taken for granted by investors, but the advent of 'buy to let' mortgages after 1996 and (initially at least) the design of the housing benefit system adopted in 1988 allowed it to 'take the strain' of higher rents by compensating tenants on a pound-for-pound basis.

The private rented sector has remained overwhelmingly the preserve of small-scale landlords who were motivated by factors such as increasingly poor returns on savings and declining occupational pension provision. However, as it has grown, the sector has also become more diverse in the tenants that it houses.

Thirty years ago, it could be characterised as being largely the preserve of students and the young and mobile population. This is no longer the case as it houses a broader cross-section of household types, including those with children. Further, as the sector has grown, so too has the cost of housing benefit, which was revamped as local housing allowance (LHA) in 2008. LHA replaced the previous practice of basing entitlement on the contractual rent with a standard figure. Initially this was based on the median rent prevailing in the market area, but later reduced to the 30th percentile, then frozen, restored to the 30th percentile and once again frozen. The expansion of the private rented sector has contributed to declining affordability of housing for working-age households, as it is typically more expensive than social renting and often, over time, more costly than homeownership.

The effect of higher rents in both social and private sectors, the shift in tenure towards private renting, and the reduction in 'supply-side' subsidies for social landlords is reflected dramatically in Figure 1.3 which illustrates the inexorable shift in the pattern of housing subsidies since the mid-1970s. In 1975/76 more than 80 per cent of housing subsidies were directed at the supply side; by 2015/16 more than 95 per cent were demand-side. Beneath this change, the overall real value of subsidy was much the same at the end of the period as at the beginning.

Figure 1.3 **Change in balance of government housing subsidies in England, 1975-2016**



Sources: Hills, Ends and Means; UK Housing Review and calculations by Steve Wilcox.
Note: Expenditure totals are at constant 2016/17 prices. Figures cover all tenures but exclude homeowner tax reliefs. The chart is reproduced from the UK Housing Review 2018.

The growth and maturity of the private rented sector have naturally brought about pressure for its reform. The most extensive reforms to date have been in Scotland where the scope for so-called 'no-fault' evictions have been greatly reduced and tenancies made open-ended, and where a 'national system of rent control' is now promised. Wales has also moved down this path while reforms in England have been promised by the government, but have been delayed due to the pandemic.

In the early 1990s, the owner-occupied sector was experiencing its first significant crisis due to the late 1980s boom turning to bust, producing an upsurge in mortgage arrears and possessions amid falling prices and negative equity. However, the forced exit of the UK from the European Exchange Rate Mechanism in 1992 heralded the beginning of a long period of economic growth facilitated by currency devaluation and the shift towards a lower and stable interest-rate environment (which 'disguised' the phasing out of mortgage interest relief by 2000).

Once the affordability of homeownership was restored in the mid-1990s, its expansion resumed until rising prices began to price out younger households, and the overall rate of homeownership began to fall after 2003. The pricing out of younger households from owner-occupation was one side of an affordability paradox. Whilst many would-be homeowners were priced out of the market, low interest rates made ownership more affordable for those people who could access it. This paradox became still more acute in the aftermath of the GFC: finance became still cheaper, but access to it was restricted for those unable to put down a significant deposit as prudential regulation was implemented (see below). The government's principal response to declining homeownership was to embark on the shared equity scheme known as Help to Buy, although since it was restricted to new properties it was also a major support for housebuilders (also discussed below). The evidence suggests that the scheme (and its counterparts in Wales and Scotland) made a marginal difference to access to homeownership, but primarily enabled households that were in a position to buy without the scheme to purchase more expensive properties.

Housing supply

Over the past 30 years, housing supply has moved to centre-stage of the housing debate. Since the 1970s, it was generally accepted that the 'crude' shortages in housing and the poor quality of much existing housing that had driven the post-war housing programme had largely been tackled. However, the experience of the late 1980s/early 1990s house-price boom and bust began to reawaken concerns that the supply side of the housing market was insufficiently responsive to demand. With house prices once again rising, the Barker review of housing supply published in 2004[6] suggested that large increases in supply were needed to moderate house-price inflation and improve affordability. Fifteen years later, the need to increase housing output remained: Glen Bramley estimated that there existed a backlog of some four million units in England and 4.7 million across Great Britain, suggesting an annual housebuilding rate of 340,000 units in England and 380,000 across Great Britain over a 15-year period.[7]

Housing supply has been in decline since the peak decade of the 1960s, when completions in England averaged 300,000 per year.[8] In the 1990s, it fell to 150,000, and in the 2010s to 108,000 – a huge gap compared to estimated need. The collapse in social-sector housebuilding has been most marked. This peaked in the 1950s at 150,000 completions, but collapsed in the 1980s to less than 50,000 units as a result of policy. In the 2010s, despite a slight revival, it averaged less than 28,000 units. The private sector managed only slightly over 100,000 units a year, although it had been on an upward trajectory (to more than 140,000 units in 2019) following the collapse in output caused by the GFC. Then, of course, Covid-19 struck.

The question as to the failure of private housebuilding to keep up with demand has been asked repeatedly.

The planning system has been 'blamed' by many for the shortfall, in its crudest form the argument being that the system is inherently restrictive in principle and planning applications are overly open to being rejected due to opposition from so-called NIMBYS. This argument sits uneasily with the number of units of planning permission granted consistently outnumbering the units built (something that holds in England, Scotland and Wales, although the gap is proportionately greatest in England). Moreover, in England more than 80 per cent of applications are approved.

The last Labour government, following the Barker review, adopted a system of regional housing targets set by central government. The Coalition abolished these under its 'localism' agenda, before the Conservative government attempted to reintroduce them at the local authority level. However, there has been a retreat from these following a backlash from predominantly Conservative councils in higher-demand areas, and the loss of the Chesham and Amersham by-election in

June 2021.[9] The planned radical reform of planning, switching towards a zoning system[10], has also been put on hold, leading the House of Lords Environment Committee[11] to suggest that policy uncertainty had had a 'chilling effect' on housebuilders. The committee noted that local authority planning departments had been badly affected by cuts after 2010 and that they needed to be more adequately resourced. It also noted that more than half of planning authorities did not have an up-to-date local plan, and called for the government to make clear its long-term strategy for land supply and infrastructure.

The housebuilding industry itself has been criticised for not sustaining higher levels of output. In a mirror image of the crude arguments about planning, insufficient evidence has been found in various inquiries for similarly crude accusations of wholesale land-banking (or hoarding for speculative gain). However, the Letwin Review[12] did suggest that housebuilders adjust (i.e. reduce) build-out rates in order to prevent additional supply depressing prices (and profits). Letwin – like Calcutt[13] before him – sought ways to raise the so-called 'absorption rate' through measures such as encouraging a diversity of builders on single sites. This is linked to the growing concentration of the industry in the largest companies which have incentives to expand the number of sites over which a given number of homes are completed. On the eve of the pandemic the largest housebuilder had a ten per cent market share, the top four a share of more than one-third, and the top ten almost half.[14] With little evidence of economies of scale, the industry has assumed the characteristics of an oligopoly and small- to medium-size builders tend to be reduced in number disproportionately with each boom-and-bust cycle. Labour and skills shortages were cited as being an additional problem by the industry, even before Brexit.

It is surprising that more emphasis was not put on affordable housing supply much sooner. The UK government had sought to limit local authority housebuilding since the 1980s, to promote sales under right to buy, and to extract surpluses from (in particular, English) local authority Housing Revenue Accounts. The attempts to do so, particularly with the introduction of 'negative subsidy' through the withdrawal of central government subsidy for rent rebates from English local authorities in 1989, prompted the first large-scale voluntary transfers of stock to housing associations. From 1988, housing associations had already been adopted as the main suppliers of new social rented housing under a 'new' financial regime based on a smaller (though initially significant) capital grant, topped-up with private borrowing.

Under New Labour, more transfers were encouraged – even among negative-value urban stock – as an incentive for financing badly needed upgrades in the quality of the stock under the Decent Homes programme in England (and equivalents in Wales and Scotland). The shift towards lower interest rates facilitated cuts to the per-unit capital grant. These cuts intensified under the Coalition along with the shift towards (higher) Affordable Rents. Stock transfers and mergers transformed the nature of the social rented sector. Housing associations have moved from being almost peripheral players in 1991 to become the main suppliers of social housing in England and Wales, and very significant players in Scotland.

It is with some irony that one might recall the rationale behind Secretary of State Nicholas Ridley's introduction of the legislation to promote housing associations over local authorities. He noted that many metropolitan local authorities managed 50,000 or more homes, which was 'an enormous administrative and management task' leading to 'tenants feel[ing] like supplicants.'[15] In 2018, two housing associations (Notting Hill and Genesis) merged to create a new landlord with almost 120,000 units under its management.

Beneath this revolution in the organisation of affordable housing, levels of supply were low by historic standards. Local authority housebuilding almost disappeared (only 50 units were completed in England in 1999), and even in the most recent years the revival is modest (the highest output has been 2,690 units in England in 2018). Housing associations in England averaged 23,000 completions each year in the 1990s, 19,000 in the 2000s, rising to 26,000 in the 2010s. The shift away from social rented housing towards both Affordable Rent and intermediate rent, and shared ownership or shared equity is clearly seen in Figure 1.3 (see page 13). Indeed at the end of the period, social rent represented fewer than 6,000 units and just 15 per cent of the need identified by Bramley. The situation in the devolved administrations is discussed below.

Housing finance

The UK's housing finance system underwent extensive deregulation in the 1980s, with the result that by the time the *UK Housing Review* was first published, the nature of the housing system had changed radically. Access to mortgage finance had been widened and mortgage lending had risen rapidly, contributing to the house-price boom in the late 1980s. The newly deregulated finance system also made housing as an asset more 'liquid' – through equity withdrawal, increased housing wealth could be turned into cash through re-mortgaging, linking housing wealth to consumption. The resultant rise in inflation prompted the rapid increase in interest rates in 1988, which prompted a fall in house prices, and a dramatic rise of mortgage arrears and possessions.

One of the consequences of the housing slump was a restructuring of the mortgage industry. It was widely believed that the mortgage market had matured and diversification would be necessary. This provided part of the rationale for the de-mutualisation wave of the mid-to-late 1990s: two-thirds of the market was controlled by building societies, but within a few years the situation was reversed, with two-thirds controlled by banks. Whether the shift towards PLC status increased lenders' appetite for risk is still debated, but there followed another expansion of lending, including the emergence of a sub-prime market, and an increased use of mortgage securitisation.

From the mid-1990s, the buy-to-let mortgage market also expanded. When the credit crunch came in August 2007 (when the wholesale markets seized up in response to the US sub-prime crisis), liquidity was the immediate problem for some lenders, notably Northern Rock. When banks' shares collapsed worldwide following the failure of Lehman Brothers in October 2008, the credit crunch became a banking crisis and its effects known as the global financial crisis (GFC). Banking failures within the UK – notably RBS – and elsewhere necessitated huge publicly financed rescues and some nationalisations to prevent the financial system from collapsing.

The GFC had four important impacts on housing finance.[16]

First, it limited access to mortgage finance essentially to those who could put down a sizeable deposit as the government reformed the regulatory framework for the banking system and mortgage lending. Following the Mortgage Market Review, the terms of lending were tightened with, for example, the introduction of affordability tests and stress tests (to assess a borrower's ability to withstand interest-rate rises). Although interest-only mortgages remained permissible, they became rare as affordability tests are based on the cost of capital-and-interest mortgages. Further restrictions on lenders' balance sheets designed to protect the financial system (rather than individual borrowers), limited the proportion of high loan-to-value (LTV) mortgages, with the result that those over 95 per cent almost disappeared. Initially, buy-to-let loans fell outside these restrictions, but have since been brought within them, although the impact in this sector is limited by the smaller number of high LTV mortgages.

Second, it led to an intensification of the low interest-rate environment. In the decade before the GFC, the UK – and the rest of the developed world – had moved towards a lower and more stable interest-rate environment as globalisation reduced inflation. The depth of the recession caused by the GFC prompted central banks to slash interest rates to virtually zero. The era of slow growth that followed the GFC ensured that they stayed there, assisted by the adoption of quantitative easing (QE) by all the main central banks to support lending and the purchase of assets including housing.

Third, although central banks (with a few exceptions such as New Zealand) do not target asset prices,[17] an effect of monetary policy has been to prevent a full price correction, which means that affordability has not been restored as it was after the late 1980s boom. The housing market, which had had the effect of spreading wealth as homeownership grew, became an ever-more powerful engine for inequality, with those households able to put down deposits able to access very cheap finance, whilst those who were unable to do so were locked out of homeownership.

Fourth, in turn this led the government to seek to support homeownership through the Help to Buy (HtB) scheme, dating from 2013.[18] The scheme probably helped to bring about the recent small revival in homeownership (whilst tax changes prompted some contraction in private renting). However, HtB also helped to inflate prices in high-demand areas. It also means that the government has a direct interest in maintaining house prices as it is now itself deeply embedded in the housing market via its equity loans.

Unravelling the combination of high house prices (in relation to incomes) and restricted access to finance, whilst protecting existing owners from sudden or exaggerated corrections, presents perhaps the greatest puzzle of all in housing policy.

Devolution

Over the past 30 years, the UK has moved from being a very centralised state to one where substantial powers have been transferred to elected parliaments and assemblies in Scotland, Wales and Northern Ireland. Administrative decentralisation existed before, but under the control of secretaries of state appointed by the prime minister. The powers that have been devolved have differed between jurisdictions and generally more powers have been devolved to each of them over time. Unsurprisingly, devolution has been a regularly topic of examination in the *Review*, with key Contemporary Issues Chapters in both the 2011/12 and 2016 editions (by Steve Wilcox and this author respectively).

To summarise, each of the devolved administrations now has legislative power over housing and planning. Scotland now has some limited but effective powers over social security. Whilst the Northern Ireland Assembly has legal powers over social security, a legacy of these powers being conferred on the establishment of the Stormont parliament a century ago, the practice has been that the Northern Irish social security system has been almost identical to the rest of the UK, under the 'parity principle' under which the UK government agrees to fund that system to the level pertaining in Great Britain. This leaves the largest financial subsidy to housing (housing benefit and rental support through universal credit) almost entirely centralised by Westminster (the mitigation of the 'bedroom tax' being an exception in Scotland and Northern Ireland).

Local property taxes (e.g. council tax and rebates) are devolved to all three administrations, but stamp duty is devolved only to Wales and Scotland. The broader tax treatment of housing (e.g. capital gains tax, and tax treatment of private rental income and offsets for costs) remains centralised, as does mortgage regulation. Borrowing powers are very limited, and would need to be widened if greater social security powers were to be devolved. The devolved administrations also simply receive 'financial allocations', used to finance Help to Buy, from the UK Budget.

Before devolution, housing policy followed the main trends in England, such as the right to buy, the shift towards housing associations and away from public housing and the reregulation of private renting. During the first decade of devolution, policy – such as the promotion of stock transfers – also moved in step across Great Britain. However, after 2010, when the political outlook of the devolved administrations diverged from the UK government, more differences emerged. These are most pronounced in the continued – and strengthened – support for new social rented housing in the devolved administrations, which have also shown no interest in diluting the model by – for example – toying with the wholesale adoption of fixed-term tenancies or shifting towards Affordable Rents.

In Scotland and Wales, the right to buy has been abolished; in England it has been 'enhanced'. Wales intends to follow Scotland in abolishing the 'priority need' limitation within the statutory homelessness framework. However, the situation is dynamic: Scotland reformed private tenancies in 2017, marking a major divergence in approach. Wales is following, and change has also been promised by the government in England. It now appears that Scotland will introduce some form of rent control. Some commentators also observe that devolved powers have not always been used to their full extent – the failure to replace the council tax in Scotland and Wales being a case in point.

This does not alter the reality that although the devolved administrations have made differences of both material and symbolic importance, they are constrained by limited powers, and indeed the way in which the context of labour markets and income redistribution are largely shaped at the UK level. Taking the long view, the rise in support for forms of self-government in the devolved nations – and perhaps to a lesser extent in the emergence of regional government in parts of England – reflect the change from the British state being seen as the guarantor of minimum social standards towards being a threat to them.

Conclusion: the need for strategic housing policy

The 30-year period over which the *Review* has sought to analyse developments in housing has been a tumultuous one. One thing housing has lacked is a strategic view from a policy perspective. This chapter has sought to highlight the way in which how the housing system operates depends on the relationship between policy, a wide range of institutions, and varying contexts. A single department, such as DLUHC in Whitehall, cannot by itself have the kind of overview that is required to shape policy strategically. In the 30 years of the *Review*, something approaching such an overview occurred only once, during the early 2000s, when the Treasury developed a view of the housing system and commissioned the reviews of planning, housing supply and mortgage finance. The Treasury also grappled with the growing links between housing, housing finance and the economy in its assessment of the UK's preparedness for membership of the European single currency. However, it did not develop a clear idea of the role of social rented housing, or of the distributive aspects to housing policy. The financial crisis caused the Bank of England to take a greater interest in housing, but from the narrow perspective of the stability of the financial system, and – like other central banks – has not got to grips with asset-price inflation. Devolution seemingly complicates the picture further, but really highlights the need for a strategic overview to be accompanied by a considered allocation of powers and resources. We need oversight and a clear understanding among different institutions of the state about their role and how it fits into the big picture.

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4 See Perry, J. & Stephens, M. (2018) 'How the purpose of social housing has changed and is changing', in *UK Housing Review 2018*. Coventry: CIH, pp.29-39.

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6 Barker, K. (2004) *Review of Housing Supply: Final report*. London: HM Treasury.

7 See Stephens, M., Gibb, K. & Perry, J. (2020) 'Housing supply', in *UK Housing Review 2020*. Coventry: CIH, pp.11-20.

8 All figures in this paragraph are from DLUHC Live table 244.

9 This is not the first time a by-election has made an impact on housing or planning policy. The prospect of losing the Orpington by-election of 1962 led the then government to announce the abolition of the tax on homeowners' imputed rental income. The by-election was lost to the Liberals, but the tax was abolished.

10 See O'Brien, P. (2021) 'Planning reform: a zonal future?' in *UK Housing Review 2021*. Coventry: CIH, pp.27-35

11 House of Lords Environment Committee (2022) *Meeting housing demand*, HL Paper 132 (https://publications.parliament.uk/pa/ld5802/ldselect/ldbuiltenv/132/132.pdf).

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Part 2 The Supply of Housing

Chapter 2

Housing supply

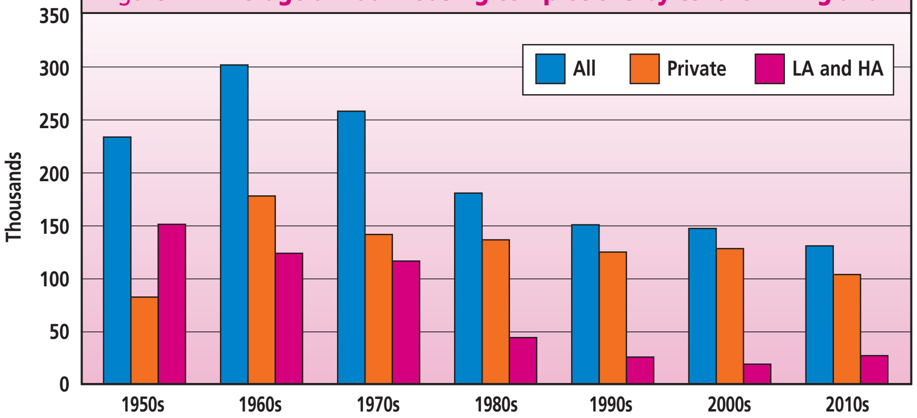
Mark Stephens, Kenneth Gibb and John Perry

UK Housing Review 2020

Housing supply remains at the centre of housing policy concerns. Research for Crisis and NHF, reported in the *UK Housing Review's* Autumn Briefing Paper 2018, identified a backlog for households in housing need of four million in England and of 4.7 million across Great Britain (GB). Over a 15-year period this implies a required housebuilding rate of 340,000 units per year in England and 380,000 across GB. These projections include allowances for suppressed household formation by younger households resulting from previous inadequate supply, as well as needs arising from demolitions. The required level of social rent housebuilding was estimated at 90,000 for England (100,000 for GB) with additional amounts for shared ownership and intermediate rent.

However, as Figure 2.1 demonstrates, annual average completions in England reached 300,000 only in one of the past six decades – in the 1960s – since when the yearly average has fallen in every subsequent decade since, down to 150,000 in the 1990s and to 130,500 in the post-Global Financial Crisis (GFC) decade of the 2010s. The largest component in the decline is the social rented sector – primarily local authorities which were the dominant providers of new social housing until the 1990s. Output in the social sector peaked in the 1950s (150,000 units per year), but fell to under 45,000 in the 1980s, and even the slight recovery in the 2010s (27,000) is a feeble echo of the past.

Figure 2.1 **Average annual housing completions by tenure in England**



Source: MHCLG Live Table 244.

Note: 2010s = 2010-2018. In the current decade the statistics understate LA and HA output – see later in the text.

This has left the private sector as the main provider. Yet the private sector never reached the peak levels of output in the 1930s when 'annual private housing completions as high as 250,000 were constantly achieved.'[1] Rather than fill the gap left as local authorities largely withdrew from housebuilding their output also fell back – falling from an average of 177,500 units annually in the 1960s to 128,000 in the 2000s (a marginal improvement on the 1990s in a decade which ended with the GFC). The post-GFC recovery has seen annual output rise to just over 100,000 in the first nine years of the 2010s.

Private housebuilding

The industry in Great Britain emerged in its modern form during the housebuilding boom of the 1930s when housebuilders first sought to raise capital from the stock market. The business model that became established is commonly known as 'speculative' which means that land is purchased by the housebuilder, which will then usually seek purchasers only when properties have been built. The builder therefore oversees the entire process from land acquisition to final sale. It means that risk is inherent to the model since the housebuilder cannot be sure of the price that the houses will sell for when it purchases the land. Further, in order to secure supply into the future, housebuilders must acquire and hold land (or options in land).

Why does this model persistently fail to produce enough housing? The government's Calcutt Review which reported before the GFC argued that 'the industry is answerable only to its investors and shareholders and not to the public interest.'[2] Consequently, it placed responsibility on government to devise 'incentives and opportunities' for the industry to act in the public interest. More than ten years on, this attitude seems complacent, although it is obvious that the context in which the industry operates will affect how it performs.

Planning

The planning system has long been held by many commentators to be the culprit for the failure of housebuilding to keep up with needs. Policy Exchange published a recent example of this approach, in which the authors claim that the 'state has substituted itself for the price mechanism in landmarkets' leading to needs assessments that lag behind reality and the 'strong tendency... to excessively ration the supply of developable land.'[3] The consequent inflation of land values causes developers to skimp on design standards and quality, and results in land-use patterns that are inefficient and often form unattractive neighbourhoods. The authors make a number of interesting proposals including a call for the current system to be replaced by a simplified binary zonal approach in which land is either zoned for development or non-development, with each designation carrying a corresponding presumption for or against development. Thereafter the market should determine land use in place of what the authors see as excessive micro-management within the context of a rules-based development system. Rules would set out what *should not* be allowed in a development zone and what *should* be allowed in a development zone.

However, experienced administrators, such as Lord Kerslake (former permanent secretary at DCLG), take a more measured view. He argued that, 'however slick, efficient and effective you make the planning system you will not double supply through that route. That is for the birds....'[4] A National Audit Office report on the English planning system pointed to the majority of local authorities not having up-to-date local plans and to possible deficiencies in the methods used to calculate housing need at a local level, but observed that ultimately councils cannot control the numbers of houses built once land has been identified and permission granted.[5] The report raises issues of infrastructure provision, noting the complexities of developer contributions through section 106 agreements and the Community Infrastructure Levy, and the reduced spending and staffing in planning departments in recent years.[6]

However, the report does note that more than 80 per cent of major residential planning applications were approved in 2017/18. Indeed the simple view that the planning system excessively restricts supply sits uneasily beside statistics on the numbers of units of housing receiving planning permission. These consistently exceed the numbers of houses completed by private and social providers combined across England, Wales and Scotland. Notwithstanding that the approvals statistics include conversions as well as new builds, the gap is striking. Completions in England were fewer than half the number of permissions granted over the 2011-2018 period – a difference of 1.1 million units.[7] The differences were proportionately smaller in Scotland (75 per cent) and Wales (69 per cent).

This might be taken as evidence of landbanking – the practice whereby a developer holds on to land in the hope that its value will rise, rather than building it out. The industry has always rejected that it indulges in such practices, arguing that landbanks are required to allow a pipeline of development, taking into account the time it takes to gain planning permission as well as market conditions. Further, they argue that it would be pointless to hoard land with planning permission because it will lapse. Most reports tend to confirm that 'these firms do not, in general, speculate in land that has received planning permission.'[8] Following an investigation that took place before the GFC, the Office of Fair Trading (OFT) concluded that:[9]

> *Having a stock of land helps a homebuilder cope with fluctuations in the housing market and also helps to reduce its exposure to risk resulting from the planning system. We have not found any evidence that homebuilders have the ability to anti-competitively hoard land or own a large amount of land with planning permission on which they have not started to build.*

But what happens once building begins? Slow build-out rates may go some way to explaining why there is a gap between permissions and completions. The Calcutt Review rejected any action to encourage faster build-out rates, arguing that it would put production at risk. However, the Letwin Review[10] was established to 'explain the significant gap between housing completions and the amount of land allocated or permissioned in areas of high housing demand.' Letwin also concluded that there was little evidence of landbanking per se, but instead attributed slow build-out rates to the 'absorption rate' – suggesting that there is a limit to the speed at which a large site can be built out without lowering prices and hence profits.

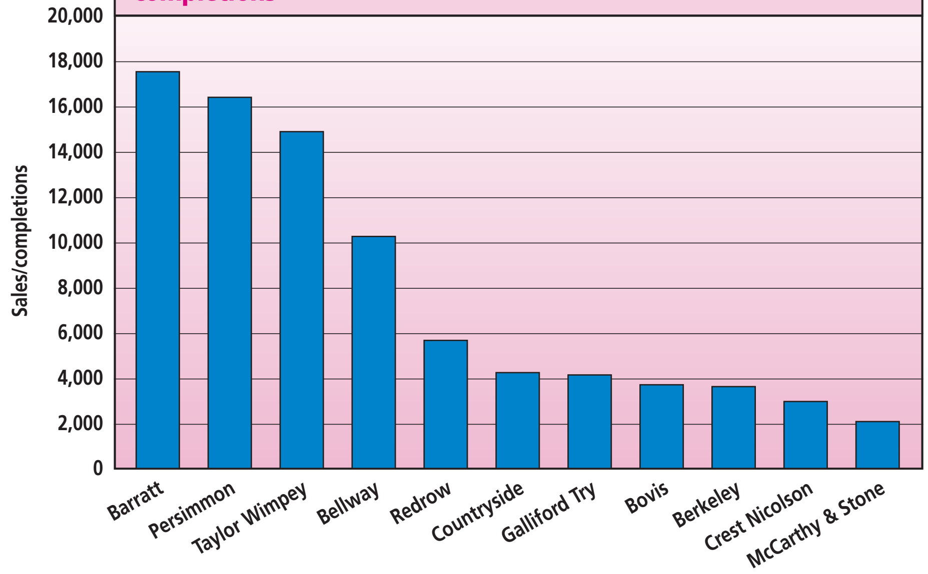
Like Calcutt, Letwin did not favour measures to force speedier build-out rates as these would cause financial problems for housebuilders. Instead, he sought to identify ways in which absorption rates could be increased on large sites. He attributed low absorption rates to the homogeneity of houses on individual sites, and proposed ways in which diversity, of both housing type and tenure, could be increased. Central to this is the idea of adopting planning rules that require diversity. He also suggested that local authorities should be empowered to use compulsory purchase powers and to cap the value of permitted land at ten times agricultural use value on large sites. In other words, he proposed that a form of land-value capture be employed in order to finance diversity. The government's formal response effectively rejected these proposals, relying instead on planning guidance 'to further encourage large sites to support a diverse range of housing needs, and help them build out more quickly.' It is also committed to 'evolving the existing system of developer contributions' rather than replacing them. However, the government did suggest that Homes England might have a role in identifying sites and to 'support local authorities to further diversify their large sites.'

Competition

One of the established trends in the private housebuilding sector is its growing concentration over time. This was charted by Fred Wellings for the Calcutt Review.[11] He noted that in the 1930s the ten largest builders had a market share of about 6-7 per cent; at the beginning of the 1970s this was 8-9 per cent; and by the early 1980s the market share of the top ten had risen to 17-18 per cent. Over this period the annual output of the top ten doubled from about 16-18,000 units each to 32-33,000. Volatility in the market led to some fluctuations in the share of the top ten, but by the early 2000s their share had risen to more than 40 per cent. A more recent analysis published by the Social Market Foundation found that the biggest four housebuilders currently enjoy a market share (the CR4 ratio) of one-third, a couple of percentage points lower than in 2014, but still higher than the pre-recession level of 30 per cent (in 2006), which itself had risen from 25 per cent in the early 2000s.[12] Our provisional calculations for 2019 (see Figure 2.2) suggest that the share of starts accounted for by the largest housebuilder is 10.1 per cent, with the top four accounting for more than one-third of starts (CR4 = 34.1 per cent) and the top ten almost a half (CR10 = 49.6 per cent).

These statistics relating to concentration are driven by the growth in scale of the largest companies. Mirroring developments in the building society and housing association sectors, housebuilding began as a local activity, but some firms developed first into regional players, and later into national ones. Wellings identifies Wimpey as being the first 'national' housebuilder in the 1970s, followed by Barratt and Tarmac McLean.

Figure 2.2 **Top ten housebuilders in 2019 by number of sales/ completions**



Source: Stone Real Estate reported in *pbc today*, December 17, 2019.

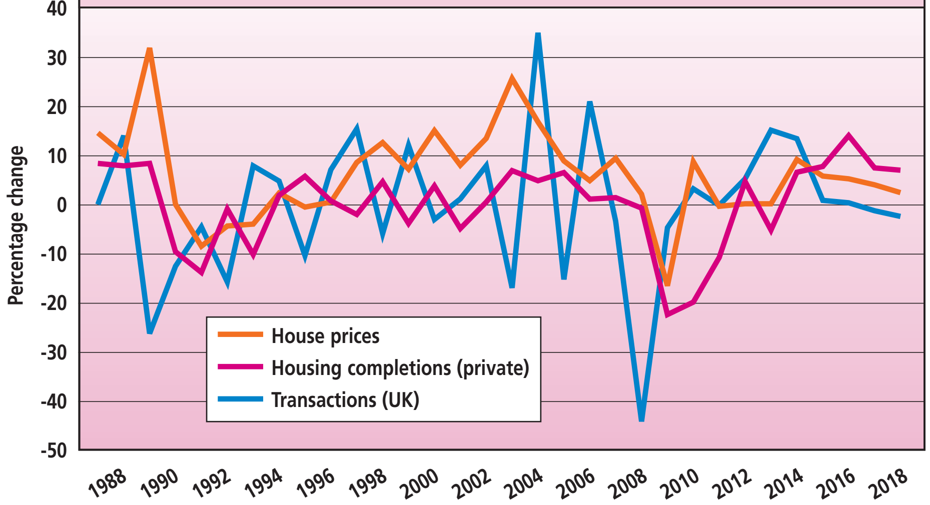
Whether the long-term trend towards greater concentration reflects economies of scale or scope is a moot point. Smaller builders complain of the costs associated with planning being disproportionate to small developments, but Wellings says there is 'no consistent evidence to support the proposition that large companies earn superior rewards to small companies.' Rather, once floated on the stock exchange, there is pressure for housebuilding firms to seek growth through gaining market share: 'they are not allowed to stop growing.' An OFT report argued that it is more profitable to sell a fixed number of properties from four sites than the same number from one because the impact on prices will be greater on a single site. Consequently, the imperative to acquire new sites 'drives many of the mergers and takeovers.'[13] Following this logic and its own examination of mergers, the Lyons review concluded that 'mergers have therefore had the effect of reducing the number of homes built post-merger.' The House of Lords Select Committee on Economic Affairs suggested that the sector 'has all the characteristics of an oligopoly' and this has intensified since the financial crisis.[14]

Smaller builders

Our analysis for 2019 suggests that housebuilders outside the top ten still account for half of housebuilding in the UK, and there is widespread agreement that smaller builders play a crucial role in housing supply, but their numbers have steadily diminished. The numbers of firms producing 100 or fewer units declined from more than 12,000 in 1988 to 2,400 in 2014 according to the House of Lords Select Committee. By 2017, the number had fallen to just 1,737. Nonetheless, Lyons described them as being 'a crucial part of the sector's capacity because they will develop small sites that larger firms will not.'

An NHBC survey of firms producing 50 or fewer units annually identified their most serious concerns as being the time it takes for planning applications to be processed, their costs and the uncertainty of outcome. Almost as important was the availability and cost of land, followed by the availability and cost of finance. In response to the last of these concerns, in 2019 the government launched a loan guarantee programme ('ENABLE Build') through the British Business Bank. However, since the programme is open only to established companies, it does not tackle the barriers to entry that inhibit new players.

Figure 2.3 **Housing Market Volatility in the UK: Annual changes in housing transactions, house prices and housing completions**



Sources: Transactions: Compendium Table 40; House prices: Nationwide; Completions: MHCLG Live Table 209.
Notes: Calendar years, except Housing completions = financial year ending; House prices = Q1 for each year.

Volatility

The broader economic context in which the housebuilding industry operates receives less attention than the institutional questions already discussed. Yet economic instability and the volatility of the housing market since the 1970s are important factors in explaining the shortfall in housing supply from the market.

Clearly the more volatile are prices and transaction volumes, the greater the uncertainty and the greater the risks facing housebuilders. These risks provide the possibility for both very high returns and catastrophic losses in terms of sales, and for these swings to be reinforced by the pro-cyclical fluctuation of asset values on balance sheets. Figure 2.3 illustrates the pattern of volatility in terms of house prices, residential property transactions and housing completions since the 1980s. When examined alongside Figure 2.1 it is clear that with each boom-bust cycle the number of housebuilders falls, alongside output.

Risks most clearly crystallised as a result of the GFC when, as Lyons reported, between 2006 and 2009 the industry's turnover halved and an operating profit of £2.2 billion in 2006 became a loss of £2.2 billion in 2008. This seems to have intensified the behaviour of the industry, according to a study by Sheffield Hallam University: housebuilders prioritised profit over volume during the recovery and distributed a higher proportion of surpluses to shareholders, rather than reinvesting them in the business.[15]

A further consequence of the GFC is the extent to which the state has become embedded in supporting the housing market. In addition to the Bank of England's monetary policy, the government has through its agencies become an owner of residential property through Help to Buy, which now accounts for between 36 per cent and 48 per cent of the total sales of five of the six largest housebuilders. Consequently, the state now has a vested interest in house prices.

Housing associations

Housing associations remain the largest non-market developers across the UK. They assumed this role as a result of the 1988 Housing Act (and its equivalents across the UK) in which the government made housing associations the principal providers of new social rented and other affordable housing. Grant per unit has generally been reduced over time, leading associations to become increasingly dependent on the ability to raise retail and wholesale finance. These changes have also driven a restructuring of the sector, with a strong tendency towards merger, which means that in terms of units under management, the largest housing associations manage stocks in excess of 100,000 units and have become national providers. These issues are explored in more detail in Chapter 13.

Assessing the scale of output by housing associations across the UK is complicated by the different statistical sources, but it has been rising and in 2018/19 reached well over 50,000 units in total if open market units, acquisitions and conversions are included as well as affordable new build (for discussion of the difficulties, see Chapter 6). Completions (on this wider basis) are rising across the UK. In 2018/19, in England they rose by ten per cent to 45,604 units. In Wales, in the same year, housing associations completed 2,338 units, up 400 on the previous year. In Scotland in 2018/19, construction statistics record housing associations as having completed 4,169 units, a one-third increase on the previous year. Their real output is likely to have been considerably more – towards 5,500 – their contribution to the push to meet an affordable homes target of 50,000 units over the lifetime of the current Scottish parliament. In Northern Ireland, housing associations completed 1,682 units in 2018/19, their highest recent output.

It is important to distinguish the composition of social rented versus wider 'affordable' development by housing associations (and councils). Compendium Tables 20a-20f provide country-level splits between the two types of new provision. Three points stand out. First, there was a further modest decline in the share made up by social rented housing, now less than a quarter of UK output; this is because of its very low share in England, which has bottomed out at around ten per cent. Second, the affordability component is quite varied with a growing role for intermediate or affordable rent in Scotland and with it playing a significant role in England, albeit uniquely here seen until recently as a *replacement* for social rented homes. Across all four countries, shared equity and other forms of low-cost homeownership have also been important, currently accounting for just over 30 per cent of total output. It is also worth saying, third, that the new impetus towards social housing post-2018 from the Whitehall government may be expected to shift these trends modestly back towards social renting, with the proviso that this does of course depend on the new government maintaining this as a priority.

A survey by *Inside Housing* of the largest housing association developers ('Insight', June 26, 2019) for financial year 2018/19 indicates that 15 developers produced more than a thousand units, and one, L&Q, delivered more than 2,800 units. This is more than half of the total delivered by the top 50 which in turn is the lion's share (about 84 per cent) of all completions by housing associations in England. Table 2.1 shows the output of the top ten broken down by tenure. Among the largest 50 developers, there was a big increase in low-cost homeownership relative to overall completions (21 per cent compared to eight per cent) and grant fell by £432 million compared to the previous year for the largest developers. Concentration of development by this group remains striking. It will be reinforced, broadly, by the partnerships being struck with Homes England and the GLA for multi-year development programmes.

The outputs of the housing association sector are clearly much lower than the private housebuilders – but far from negligible. Construction statistics suggest that for every five houses built by the private housebuilders, the housing associations build one, although as we have seen this likely exaggerates the difference. The housing association sector has also undergone concentration particularly since the need to raise private finance became a significant factor after 1988. In 2019, RSH figures show that grant accounted for 10.5 per cent of development finance in England, whilst half came from sales and other cross-subsidy and the balance from debt. The largest association (in 2019), L&Q, accounts for 8.4 per cent of completions. The share of the top four associations at 24.3 per cent is much lower than their private counterparts (34.1 per cent), but the top ten's share (47.9 per cent) is very close to that in the private sector (49.6 per cent).

Table 2.1 Top ten housing associations in England 2018/19 by number of completions

Name	Total completions	Social rent	Affordable Rent	Intermediate rent	LCHO sale	Market	PRS
L&Q	2,862	255	641	29	657	757	523
Places for People	1,876	212	401	34	204	696	329
Notting Hill Genesis	1,856	183	241	0	617	95	720
Home	1,660	4	731	0	554	371	0
Platform	1,598	458	681	0	459	0	0
Sovereign	1,543	241	639	0	530	70	0
Orbit	1,266	189	544	0	343	190	0
Clarion	1,243	13	641	0	454	135	0
Bromford	1,236	240	501	30	431	34	0
Aster	1,156	156	444	0	453	103	0
TOTAL	16,296	1,951	5,464	93	4,702	2,451	1,572

Source: Inside Housing, June 26, 2019.
Note: Totals include some uncategorised units.

Housing association development continues to face a number of constraints and drivers as well as emerging themes which may shape the scale and pattern of what they build in the future. Non-market supply is constrained by financial reserves, the ability to raise private finance efficiently and investment needs in the existing stock (see Chapter 13). It also depends on the supply of affordable land in the right locations and on the capacity of the construction industry. With planning over a period of years it depends on partnership programmes with grant-funding agencies and also the certainty of the form and scale of public funding. Indirectly, housing association development also depends on effective partnership with local authorities and the specific functioning locally of developer contributions (see below) where these apply.

Homes England (HE) is still a relatively new organisation, empowered to be a housing accelerator and market disruptor in housing development, land and construction markets.[16] Primarily operating outside London (where the equivalent body is the GLA), in addition to the aforementioned multi-year partnerships with housing associations, HE is directly making land available for the market and for non-market sectors and funding affordable housing delivery. In its first three years, HE directly funded an increasing volume of affordable homes, rising from 22,000 in 2016/17 to 28,710 in 2018/19. HE also released sufficient land in 2018/19 to provide forward capacity for 35,000 further homes (market and non-market). Commitments by it and the GLA under its current programme are covered in detail in Commentary Chapter 4 of each edition of the *Review*.

The ongoing developer contributions for affordable housing made via section 106 agreements in England and Wales (section 75 in Scotland) remain important. Moreover, in England, their significance numerically is growing. Evidence from the MHCLG live tables indicates that between 2015/16 and 2017/18, the number of affordable homes provided in England with section 106 support rose from 12,904 to 23,052. During the same period the proportion of all new affordable homes in England supported by section 106 rose from 40 per cent to 49 per cent. Taking these three years together we find that most of the units were for Affordable Rent (22,316), shared ownership (14,855 units) and social renting (9,821). Another 5,121 were for affordable homeownership (i.e. sale at a discount) and 2,399 units for intermediate renting.

Housing associations have long and deep connections with private commercial interests such as property professions, the construction industry and private finance. But there is something quite different and distinct about for-profit providers operating in the housing association development sector and attracting public funding support. In 2019 Savills reported that 46 for-profit registered providers submitted returns to the social housing regulator.[17] They are mainly active in shared ownership and also constructed just under 3,000 sub-market general needs units in the year to March 2019. Much of this housing is provided as part of section 106 agreements and block purchases but by offering new money where housing associations may have hit financial capacity, though these for-profit providers remain contentious in the wider sector.

A challenge in Scotland is funding uncertainty arising from the government's long-term policy consultation 'Housing to 2040' which clearly trails, post-2021, that Scotland cannot afford to carry on with the scope and scale of public funding for housing given other commitments to, for example, tackle child poverty and achieve carbon reduction targets. This is causing much more focus by the sector on funding continuity and the immediate future after the 2021 Scottish parliamentary election, to the detriment of the ambitious and radical long-term vision represented by the Scottish Government's consultation. It did, nevertheless, announce provisional funding of £300 million for 2021/22.

While there are signs of growth in the housing association development programme across the UK and in resourcing such growth, and there is some degree of innovation, uncertainties remain. One challenge in the near future is the risk of adverse changes in public funding. This is a concern, for different reasons, particularly in England and Scotland. A second concern relates to the impact of the Brexit transition year and how this in turns leads to a highly uncertain economic future post-2020/21. This is part of a wider concern about difficult economic circumstances ahead. One thing that is abundantly clear is that the housing association development model is pro-cyclical in important respects and is likely to remain so. Thus, and despite the positive signs, there is no end to uncertainty for the sector.

A resurgence of council housing?

In the mid-twentieth century, an upsurge in housebuilding was almost unthinkable without a major contribution by local authorities building new council houses. At the post-war peak of new building in England, in 1968, when more than 352,000 new homes were completed, over 40 per cent were built by councils. In Scotland, building was even more dependent on councils: in the post-war years, it was not until 1978 that private enterprise built more homes than Scottish local authorities.

But by 1988, when private building peaked again and output in England topped 202,000, councils' contribution was only eight per cent. By 1995, English councils were building fewer that 1,000 houses annually and this continued until 2011. The fall to negligible output by Scottish councils occurred at the same time, and the similar fall in Wales continues almost to the present day. Northern Ireland has a slightly different pattern, with the Housing Executive taking over most housebuilding that would have been undertaken by councils and, in the 1980s, often rivalling private enterprise in its output. But it too, by the late 1990s, had largely given up its housebuilding role.

Across Great Britain there has been something of an upswing in local authority housing completions, albeit from a very low base. In 2004/05 only 130 council houses were built across Great Britain, but in 2018/19 just over 4,000 had been built (of which 1,880 were in Scotland).

What accounts for the recent upsurge in council building in Scotland and England? A factor in common is access to government grant, which hitherto had only been available to housing associations. In Scotland, councils also have healthy housing accounts, because they have not been subject to government-imposed rent controls, and they were able to keep what (until recently) were the sizeable receipts from right to buy sales. They were also able to combine grant with unrestricted prudential borrowing. Councils in England had to wait until April 2012 for similar freedoms, and even then, were soon subject to new rent controls. Since November 2018 they have had the same freedom to borrow prudentially.

Despite the enormous difference in the size of the sectors in Scotland and England, council house building has recently been running at similar levels in the two countries, although in England a step change is expected because of the removal of the borrowing caps on councils in 2018 and, in April 2020, the ending of enforced rent reductions. Unlike in Scotland, there has also been an increase in right to buy receipts although this of course means that for many English councils their building programmes are simply replacing homes sold to tenants. The Treasury expected the changes to lead soon to councils building over 10,000 new homes per year; a CIH study suggested (at the time) that this target would be met and possibly exceeded.[18]

In Scotland, councils are contributing around 30 per cent of new housing built for social rent, although their proportion of the grant disposed through the Affordable Housing Supply Programme is lower, at about 22 per cent in 2018/19.[19] Proportionally, therefore, they are likely to continue to have a bigger role than their English counterparts. In Wales, where council housing financial reform did not take place until 2015, councils have been slower to undertake new build although three are now doing so. In Northern Ireland, there has been much talk of the Housing Executive regaining its housebuilding role and, if the Northern Ireland Assembly reopens, there seems to be some prospect of this happening.

One constraint applying across the UK is access to and the costs of borrowing from the Public Works Loan Board (PWLB), by far the biggest source of council debt. The Treasury has raised the cost of PWLB borrowing, and the LGA has said that this has 'stilled' councils' housebuilding plans.[20] However, it remains to be seen whether this has a serious effect: many councils will have priced-in higher PWLB rates in the contingencies of their business planning, and some are already looking for alternative sources of debt.

Conclusions

The challenge of providing sufficient new housing is not being met – and has not been met for a long time. This overview suggests that the current model of housebuilding is unlikely to meet needs and a different business model is required. Clearly such a change could not happen overnight and there is considerable risk that measures taken radically to change incentives might have the unintended consequence of reducing capacity, at least in the short to medium term. Recently, the idea that the state should have a greater role in land acquisition and assembly has gained popularity, although it raises the question of the level of compensation when compulsory purchase is employed. The role of Homes England may represent a start, and one that recognises that in a successful modern and complex economy the roles of the state and market should be complementary.

It is certainly the case that housing need will not be met without an important role being played by the social / non-profit sector. The removal of some of the restrictions on local authority building has led to a revival in this segment of the market, which has inherent strengths in terms of borrowing capacity. However, a lesson from Scotland is that grant is likely to be needed to facilitate development at scale. The housing association sector has grown and now has a number of national players, although development scale is still small compared to the private housebuilders. Finally, the context in which housing providers operate is important. There is considerable evidence that housing market volatility has increased risks and reduced capacity and competition over time. It has also resulted in the undesirable situation whereby the state has a direct stake in the owner-occupied market and an interest in maintaining higher prices. Reducing volatility opens up another set of policy dilemmas,[21] notably relating to land and property taxation, the politics of which are hazardous, but which surely need to be confronted.

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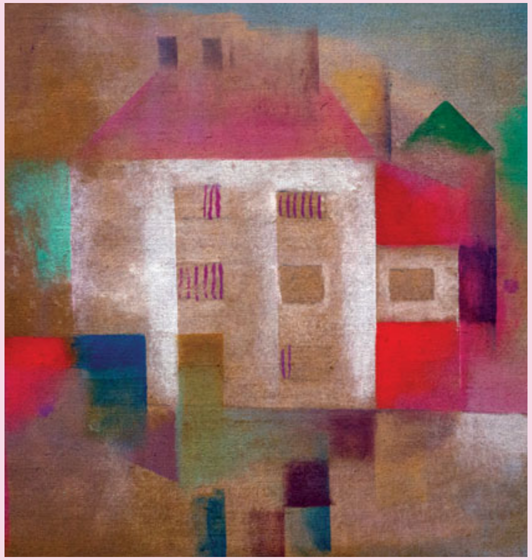
Part 2 The Supply of Housing



Chapter 3

Affordable housing supply in the UK: the challenges ahead

Peter Williams and John Perry

UK Housing Review 2022

Introduction

Four years after the most recent comprehensive assessment of housing need across Great Britain (Bramley, 2018), it is time to take stock and assess how far new housing supply is meeting those needs. The study concluded that we need to build 380,000 new homes annually of which 163,000 should be affordable housing. Of the latter, the bulk should be for social rent (100,000) and the remainder for other rented stock (33,000) or affordable home ownership (30,000), see Table 3.1.[1]

Table 3.1 **Projected new housebuilding requirements in Great Britain, 2018**

	Total	Affordable housing		
		Social rent	Shared ownership	Intermediate rent
England	**340,000**	**90,000**	**25,000**	**30,000**
Scotland	**26,000**	**5,500**	**2,500**	**2,000**
Wales	**14,000**	**4,000**	**1,500**	**1,500**
Great Britain	**380,000**	**100,000**	**29,000**	**33,500**

Bramley, G. Housing supply across Great Britain for low-income households and homeless people.

The Bramley study made significant allowance for suppressed household formation by young adults arising from affordability constraints and an ongoing backlog of unmet housing need. Although the 2018 study has not yet been fully updated, Bramley's most recent work suggests that in England needs have sharpened further since then, with 49 per cent of people in need now requiring social rented homes compared with 43 per cent in the 2018.[2] This does not cover worsening conditions during the pandemic, with supplements to the English Housing Survey (EHS) showing that, during it, overcrowding increased, arrears among private tenants rose threefold, and more than one-fifth of private renters had lower earnings.[3]

More recent evidence from elsewhere in the UK was summarised in Commentary Chapter 2 of the 2021 *Review*. For Scotland, a 2020 study broadly confirms the 2018 Bramley assessment, although indicating a need for a higher proportion of social rented homes. In Wales the latest official assessment puts the overall need for new homes at about half of Bramley's figure, placing less emphasis on clearing the needs backlog, but still suggesting 3,500 affordable homes of different types are needed annually. Bramley's review did not cover Northern Ireland, but the latest evidence suggests a need to build 4,900 homes annually, of which about 1,500 should be for social rent.

Overall housebuilding targets across the UK are discussed in Commentary Chapter 2 of each chapter of the *Review*.. This chapter focuses specifically on how countries are meeting *affordable* housing needs, either via direct provision of rented housing by social landlords or, in respect of affordable homeownership via a mix of direct provision and other measures which assist some low-income, first-time buyers.

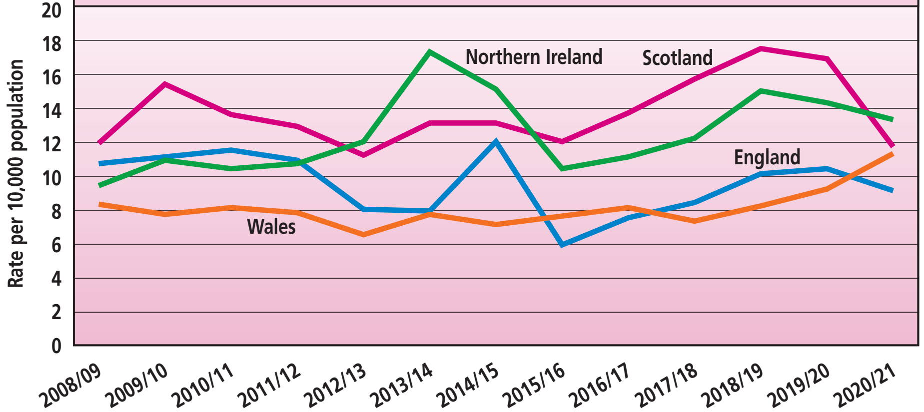
What do current programmes achieve?

In all four administrations the current programmes for delivering new affordable homes are more ambitious than their predecessors. Broadly speaking, the English Affordable Homes Programme (AHP) aims to start 36,000 homes per annum; Scotland's Affordable Housing Supply Programme's target is to deliver 11,000 homes annually; Wales aims to build 4,000 'social homes for rent' annually and Northern Ireland to start 1,850 homes each year under its programme ending in April 2022. However, this is not the whole story as, in England in particular, developer contributions provide roughly a further 27,000 homes annually, forecast by Savills to drop to about 25,000 over the next few years.[4]

Combining these separate programmes produces a crude UK affordable homes target (a mix of starts, completions and developer contributions) of about 78,000 new homes each year, which is rather higher than recent output but similar to that of the peak year 2014/15 (see Compendium Table 20f). However, it is only about half of what Bramley judges to be required.

Relative performance across the four nations is illustrated by Figure 3.1, which shows recent affordable output according to population size. Scotland and Northern Ireland have performed better than both England and Wales.

Figure 3.1 **Affordable housing delivery per 10,000 population across the UK**



Source: Compendium Table 20f.

Tensions in meeting targets: competing claims on providers' investment resources

The new affordable supply programmes across the UK all put extra public money into new build investment but also require providers to invest more too – at a time of significant competing pressures on those organisations' investment resources. These can be summarised as:

- Responding to tenant and regulator concerns about dwelling quality and awaiting the outcome of various reviews of current statutory standards.
- Investing in building safety in response to legislation and heightened public expectations.
- Meeting decarbonisation targets in the existing stock on very tight timescales.
- Doing so while adjusting to rising costs of building supplies and labour (reported as significant by nine out of ten Welsh social landlords in a recent CIH Cymru survey).[5]
- Responding to pressures on rental income, post-pandemic.

Regulators are drawing attention to these pressures and attendant risks and providers must strike the right balance in their investment programmes while evaluating the full impact of building safety requirements, awaiting details of government decarbonisation targets and potentially facing new housing quality standards.[6] Unsurprisingly social housing providers are spending more money on upgrading their housing stock with inevitable consequences for planned new supply (see below). The Regulator of Social Housing's 2022 profile for the sector in England says that landlords are planning 12 per cent more investment in existing homes in their latest 5-year forecasts compared with previous forecasts.

The two most crucial issues competing with new build for investment resources are building safety and decarbonisation. A third factor, rent inflation, is a major consideration in each landlord's determination of its investment resources.

Building safety

The work required to tackle the risks of the types of cladding linked to the Grenfell Tower fire, now largely complete, are the tip of an iceberg. The social sector is now grappling with wider safety concerns in high-rise and even medium-rise schemes, which for English housing associations could cost £10 billion.[7] This is already having an impact on new build plans. For example:

- A survey of 106 housing associations found that 61 are cutting plans to build 12,900 new affordable homes over the next five years, in order to prioritise spending on building safety.[8]
- L&Q, a large association with a total building safety bill of around £450 million, is cutting back its house building target by 70 per cent (to around 3,000 homes annually).[9]
- Other large landlords with cuts specifically related to building safety priorities include: Optivo, with 2,000 new homes cut from a 4,500-home target for 2020-23; Catalyst cutting its annual new build programme from about 1,300 to 1,000 homes; Clarion's output cut by about 1,800 over five years.[10]

The Local Government Association has pointed out that, without more financial support, English councils will be forced to divert funds from maintenance and repair and from providing new social housing to cover remediation costs, which the LGA calculates as totalling £8.1 billion for councils' housing stock.[11]

Decarbonisation of the existing stock

Scotland is ahead of the rest of the UK in setting clear decarbonisation targets for social housing. Landlords had until 2020 to meet the first milestone for the Energy Efficiency Standard in Social Housing (EESSH) and until 2032 to meet the second milestone, at a projected cost of £2 billion to housing associations.[12] The EESSH is being reviewed and this may put increased pressure on costs.

In England, analysis for the LGA estimates the additional investment required to decarbonise council housing stock at almost £1 billion per year over a 30-year period,[13] a considerable call on resources given that capital spending on new and existing stock averages about £5-6 billion per year.[14] Parallel analysis for the NHF[15] showed that up to 2030 about £2.2 billion will be required annually on top of associations' existing spending of about £1.5 billion on major repairs and planned maintenance. One association, Hyde, estimates that it will need to spend an average of £15,000 per unit on decarbonising its stock, of which only one-third will be covered by its normal investment budgets, illustrating the scale of the funding 'gap'.

In Wales, retrofitting the 230,000 social sector homes is estimated to cost £5.5 billion, with about a third required as grant.[16] In Northern Ireland, costs for the social sector of achieving EPC band B are put at £1 billion.[17]

While the availability of grant funding from different sources is becoming clearer, landlords will have to cover a significant proportion of costs themselves. The cost could possibly be eased (as the G15 has suggested) by, for example, reducing or removing VAT on decarbonisation work, by driving through economies of scale or by allowing rents to be increased where work will reduce tenants' fuel bills (so-called 'warm rents'). However, none of these is currently on offer.

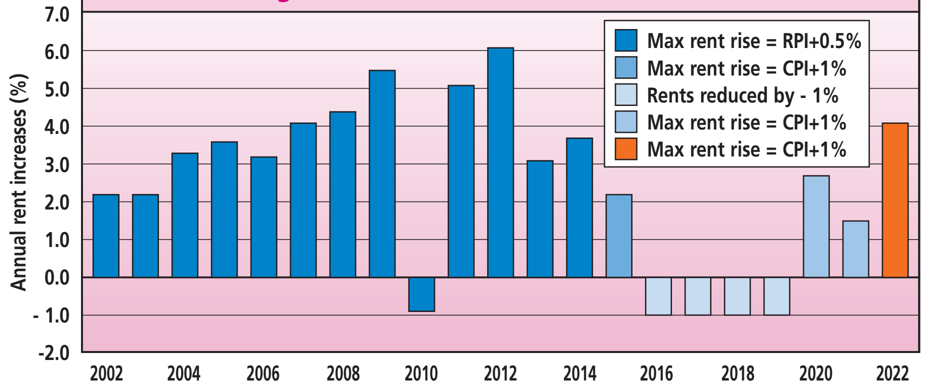
Preparedness for zero carbon is still patchy. BEIS recently conducted a survey of providers in England which showed that only half know the EPC rating of the majority of their stock, and only a quarter had relevant targets (e.g. to achieve EPC Band C by 2030). The principal barrier to achieving higher standards was seen to be finance.[18]

Handling rent inflation

Social landlords find themselves in a dilemma when deciding their rent policies, which of course determine the income available for new investment as well as running costs. On the one hand, having had to cut rents in the four years up to 2019 (see Figure 3.2), English landlords can make above-inflation rent increases and indeed in 2022 will be able to raise rents by up to 4.1 per cent as a result. On the other hand, while arrears have remained relatively stable during the pandemic, landlords are well aware that many tenants struggle to pay their rent, partly because the proportion receiving help through the benefit system is falling. Indeed, analysis by the Resolution Foundation shows that, in London and the South East, more than half of social tenants have to pay their own rents in their entirety.[19] In addition, 11 per cent of housing association tenants now pay higher Affordable Rents, reported to be creating hardship for many.[20]

Welsh social landlords can also raise rents above inflation, within certain constraints. In Scotland, which has no social rent policy, rent increases have exceeded inflation in recent years, but social landlords were reported to have increased rents by an average of just 1.2 per cent in 2021, probably in recognition of tenants' tighter finances, post-pandemic.

Figure 3.2 **How rents policies have restricted social sector rent increases in England**



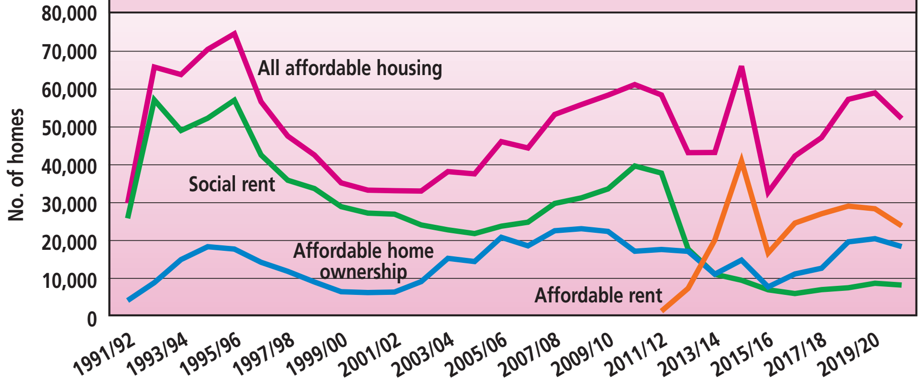
Source: Resolution Foundation, Housing Outlook, 4th quarter of 2021.
Note: Dates refer to the April of each year when rent increases take effect.

As investment in existing stock increases, the logic of tenants paying more is obvious, but the imperative of ensuring rents are affordable (not least because of the implications for arrears) remains equally important.

Supplying low-cost rented homes

Housing need assessments such as those noted above have consistently shown that the needs of nearly half of those living on low incomes who are homeless or living in unsatisfactory conditions are best met by providing housing at lower, social rents. The backlog of unmet need has grown considerably due to the failure to meet this aspect of supply. In part this is because, at the UK level, there has been a marked shift in the balance of affordable output away from social rented homes: whereas in 2010/11 they accounted for some two-thirds of completed homes, that has fallen to less than a quarter, while Affordable Rent and other intermediate rent products now account for nearly half of the total.

Figure 3.3 **Supply of new affordable housing by tenure in England, 1991/2 to 2020/21**



Source: DLUHC Live Table 1000.
Note: Social rent includes London Affordable Rent; Affordable homeownership includes shared ownership.

However, the scale of shortfall is very different in England compared with the rest of the UK. In Scotland, where about 5,600 social rented homes have been delivered annually for the past five years, the new target will be 7,700 homes, which is in line with current estimates of the requirement. The 2021 *Review* estimated that, as a result, Scotland's total social rented stock should have increased by 25,000 since 2016. In Wales, about 2,000 social rented homes are being delivered annually and the new programme for 2021-26 aims to provide 4,000 homes for rent per annum, reflecting the priority now given to that tenure.[21] In Northern Ireland, social rented needs are already being met by current output.

In contrast, in England social rented output has fallen to less than 7,000 units annually (see Figure 3.3), with more than half of that coming from developer contributions rather than from grant-funded programmes. The numbers are far from sufficient to replace the social rented homes lost, let alone add to overall supply. Since 2012, the stock has *fallen* by 208,000 (five per cent), and the principal reason for this is the loss of 128,000 homes through right to buy (RTB) sales.

The other main reason is the drastic shift of emphasis (unique to England) towards lettings at higher, Affordable Rents (AR). There are several elements to this. One has been conversions of social rented homes to AR lettings: although numbers are falling sharply, such conversions have rivalled RTB in their effects, totalling 120,000 since 2011. Another has been that where homes sold through RTB are replaced, this is usually via new AR lettings not via homes for social rent. The third is that AR has displaced social rent as a priority for government funding. The result is that delivery of new homes for Affordable Rent has been three times the level of social rented output.

The cumulative effect of these changes is that the stock let at higher, Affordable Rents by housing associations has grown to 281,594 units (11 per cent of HA stock) in less than a decade. Local authorities have added a further 30,222 AR lettings. Yet the original aspiration that AR would cater for 'a more diverse section of the population' has not been achieved: while tenants paying AR are more likely to be in work, they are almost as likely to require housing benefit as those paying social rents, i.e. there is no self-sufficient group of households who can pay the higher Affordable Rents without government help.

Under the AHP 2021-26, Homes England expects half of its programme to deliver rented homes (both social and AR), while the GLA's share of the programme aims for at least half of its output to be for social rent. Within these targets, two more factors favour a modest increase in the proportion built for social renting. One is the incorporation of more local authorities into strategic partnerships with the two funding agencies; the second is that many English local authorities' plans to build more homes, delayed by the pandemic, will resume. Councils will now be able to take belated advantage of the removal of the caps on their borrowing that took place in 2018, aided by the ending of the four-year period of rent reductions (see Figure 3.2), and in many cases are likely to favour building social rented homes to replace those lost through right to buy.

Savills forecast that social rent output could therefore double to around 11-12,000 annually by 2026,[22] which implies that it gains a bigger share of grant funding and/or that more units are built without grant. It seems unlikely that developer contributions will help more in this respect, however, in part because the government wants them to prioritise output of First Homes, and in part because of the possible early impact of planning reforms (see below). Indeed, Savills forecast that output of both types of rented homes via developer contributions will fall by a fifth. Even if doubling of social rented output is achieved, however, it will still fall well short of the 90,000 homes required annually to meet housing need suggested by Bramley.

AR output was running at 26-28,000 annually for the three years to 2019/20 but then dipped to 23,715 in 2020/21: Savills forecast this to decline slightly then return to 26-27,000 by 2026. Again, this is likely to rely on grant funding, with a smaller proportion coming from developer contributions.

Measures to promote affordable homeownership

Across the UK there is a variety of schemes supporting access to homeownership. Setting aside tax interventions,[23] and the Lifetime ISA (and earlier Help to Buy ISA) which can be used to fund a first home by any household, each country has developed differing suites of 'affordable homeownership' solutions to assist lower-income households. These include Northern Ireland's long-established Co-Ownership scheme (since 1978) and shared ownership (SO) in England (since 1980).

In England, the government originally committed to building 135,000 new SO homes in the last AHP. The latest data (see Compendium Table 20a in the *Review*) show there were 76,488 SO completions in the period 2015/16 to 2020/21 although starts fell by two-thirds in 2020/21, partly due to the pandemic. A further 12,622 affordable homeownership homes were completed over this period – a small number of which would be Rent to Buy (for which no separate data are provided).

Roughly 50 per cent of the planned output from the new AHP in England is affordable homeownership, principally SO. This is the new version of SO with a minimum share of ten per cent and allowing staircasing at one per cent per annum, alongside the 10-year period where the landlord has responsibility for repairs.[24] There is also a right to shared ownership entrenched in most of the rented homes built under the current AHP.

The shared ownership schemes operating elsewhere in the UK deliver relatively modest numbers (see Compendium Table 20) but this is mitigated by lower house prices and better market access to homeownership.

Since 2013, Help to Buy (HtB) has dominated the policy landscape in GB in terms of assisting a wide spread of homeowners and first-time buyers. Often overlooked but it was also aimed at boosting housing supply and assisting the recovery of the building industry. Crucially it is a market product rather than an affordable housing one and was open to any buyers of newly built homes up to a price of £600,000, depending upon country/region. We have examined HtB in previous editions of the *Review* (in most detail in Commentary Chapter 6 of the 2020 edition).

Around 80 per cent of purchasers via HtB have been first-time buyers (FTBs). After April 2021, it was formally restricted to FTBs only and, after being extended, HtB is now scheduled to end in 2023 in England and Wales and has already closed in Scotland. The scheme has not been without controversy, not least in terms of how it has boosted builder profits and dividends. An private sector alternative, Deposit Unlock, has been launched by the housebuilding industry However, HtB's closure as a government scheme does suggest an increasing reliance upon SO as a major route into homeownership for those outside the mainstream market.

Despite the different interventions, the Intermediary Mortgage Lenders Association (IMLA) argues that, compared to rates of entry into homeownership prior to 2007, there have been some 2.7 million aspiring FTBs in the UK who did not get into the market since then, of whom nearly 200,000 failed to do so in 2020.[25] IMLA and others[26] argue that the tightened regulatory regime put in place after the global financial crisis has been a key driver of this 'shortfall'. The Bank of England's Financial Policy Committee takes a different view (as discussed in Chapter 11).

Bridging the affordable homeownership gap?

At the 2020 Conservative Party conference, the prime minister pledged to transform 'generation rent' into 'generation buy' and committed the government to bringing another two million households into homeownership by May 2024: presumably an ambition for the UK as a whole and – subject to how this is measured – a very ambitious target! With rising prices and stalling wages, access to ownership in general as well as the output of affordable homeownership products have been falling. In any year roughly half of all purchasers will be FTBs but, despite government programmes, achieving that 2024 target looks increasingly unlikely.

Despite its weaknesses, HtB has been an important mechanism: perhaps 15-30 per cent of scheme users would have been unable to become or remain homeowners without it, and others have been able to 'buy bigger, better and sooner' via HtB. A crude estimate is that by March 2023 when all the schemes across the three countries should have closed, around 500,000 households in total will have used HtB (see Compendium Table 105). This suggests that between 75,000 and 150,000 households have become homeowners who could not otherwise have done so. Over the same period the more tightly targeted shared ownership output delivered by housing associations and local authorities across Great Britain would have delivered around 190,000 homes, highlighting both the significance of the latter and the importance of the former in this sphere.

In addition, the long-established right to buy programmes aimed at boosting low-income homeownership amongst public sector tenants have ended in Scotland and Wales, will be curtailed in Northern Ireland and provide diminishing numbers in England (see Contemporary Issues Chapter 4 in the 2022 *Review*. Again this suggests increasing reliance on SO as the route for lower-income FTBs.

As is well known and more recent research has confirmed, one of the strengths of SO is that it is open to a wide spread of incomes – reflecting the variable percentage of share being bought – though it is argued even then seven out of ten low-income renters would still not be eligible.[27] The new SO model starting in England (see above) will ease some tensions but others remain as is evident, for example, in the fall in the numbers able and/or willing to staircase to 100 per cent ownership. SO needs further reform if it is to become the ever-more-important route into affordable homeownership that policy has ascribed to it and the market wants and needs.

However, aside from reform the SO market faces other problems. Many shared ownership flats have been caught up in the chaos surrounding the English government's approach to cladding and fire safety and have become un-mortgageable, though a partial solution was announced in January 2022. This in turn compounds the problems that have emerged with the cross-subsidy model that many housing associations have used to counteract falling grant rates and gearing constraints. Little wonder there is a growing asset sale market. In December the Welsh Government responded to the cladding problems by announcing a buy-out scheme which may include flat owners unable to sell on the open market without triggering negative equity, people in mortgage arrears and those now in need of a bigger home.

Although still being piloted in England, the new First Homes (FH) scheme offers a minimum, perpetual, 30 per cent discount on a new home delivered through the planning system. To achieve this, developers will seek to maximise their use of section 106 agreements (and First Homes exceptions sites) and to draw upon a £150 million government support scheme.[28] Assuming this scheme comes fully on-stream in 2023/24 it may deliver up to 10,000 homes per annum. However it will have clear implications for SO as the two schemes will compete for the use of some of the same sites. The government suggests FH will account for at least 25 per cent of all affordable housing delivered via planning obligations.

Some 50 per cent of all SO units are also developed in this way so it seems likely that more FH homes will mean fewer SO homes and indeed fewer social rented homes too, especially given the current cutbacks in new housing association SO output noted above. The Rural Services Network has pointed to problems in implementing FH in rural areas, including that the discounts will be insufficient to make FH affordable. They also note that, in displacing new SO schemes, FH will have a double impact on delivery of low-cost rented homes because associations rely on SO sales to cross-subsidise them.[29]

Although homeownership is typically more affordable in Northern Ireland, Scotland and Wales than many parts of England, all of them operate affordable homeownership schemes (each with different definitions and data sources on affordable housing, rendering cross-UK comparisons difficult – see Contemporary Issues Chapter 4 in the 2020 *Review*). In summary the schemes are as follows:

- In Scotland, the First Home fund through which FTBs can get a £25,000 equity loan to buy a new or an existing home had supported nearly 9,000 purchases by March 2021 and funds are fully allocated for 2021/22 after which the scheme closes. LIFT (Low-cost Initiative for First-Time Buyers) continues with two variants – Open Market Shared Equity (OMSE) and New Build Shared Equity. A total of 733 sales were recorded in 2020/21 for OMSE compared to 1,145 sales the year before, this fall in part due to the First Home scheme.
- In Wales, HtB closes in 2023[30] and the Rent to Own scheme has closed with no new funding. It had delivered 187 homes over three years to March 2021. SO continues from February 2018 and in some areas HomeBuy offers up to a 30 per cent equity loan on existing properties.[31]
- Northern Ireland's Co-Own and Rent to Own schemes allow households to choose almost any new or existing home in NI with a value up to £175,000, with over 1,000 households a year using Co-Own. In addition, three housing associations offer an SO scheme, Fair Share.

Generally, demand exceeds supply and countries vary in the extent to which they trade off affordable renting and homeownership. With respect to ownership, access to the market has tightened for a variety of reasons, with serious impacts on both a regional and generational basis. As the Resolution Foundation commented, '...not only do today's aspiring first-time buyers need a larger income ...compared to previous generations, they also require more savings upfront in order to begin to build up property wealth'.[32]

Minding the gap – solutions and consequences for affordable homeownership

By 2023, with HtB's contribution to affordable homeownership gone and output of SO probably reduced, fewer than 20,000 affordable homeownership homes might be delivered each year across GB, down from perhaps 30,000 per annum. How then might we fill both this gap and meet the ongoing unmet demand – as well as make progress on the prime minister's stated ambitions?

In England, FH may deliver up to 10,000 homes per annum when it is mainstreamed in 2023/24 and SO a further 15-18,000 but the picture is a little less clear in Scotland and Wales. Scotland has set out its plan to build 110,000 new affordable homes to 2032 (70 per cent for social rent) while Wales has committed to building 20,000 new homes over the period 2021-2026 again mainly for social rent. Both will include affordable homeownership but no precise numbers have been released. Northern Ireland will presumably continue with around 1,000 co-ownership homes per annum.

Setting aside the short-term mortgage guarantee scheme on existing homes which closed at the end of December 2022, one encouraging new development is the number of market led initiatives. Deposit Unlock, the housebuilders' alternative HtB scheme, supports 95 per cent mortgages on selected new build properties, underwritten by a mortgage guarantee.[33] Alongside this we have Market Mortgage which brings together a conventional mortgage with an insurance company top-up loan, all offered at a competitive 95 per cent, and Proportunity, another entrant to the market, offering an equity loan alongside a conventional mortgage.[34]

These and other private sector initiatives highlight a new appetite in investors to fund (primarily by equity investment) residential real estate and take advantage of the sustained price growth in the housing market, itself reflecting the long-term undersupply of homes. One feature of the UK mortgage market is that it is deeply price-competitive and getting new products to scale has often proved difficult. Most households if given a choice prefer mainstream providers and products. But there are clear gaps in the market and this has encouraged innovation which may reduce the pressure for further government action to facilitate ownership. With public finances under considerable strain, governments will minimise what they do if there is any evidence the market can deliver real solutions to close the gaps.

The market is also offering more 95 per cent loan-to-value mortgages and these now cover new build – a market not historically covered at all. Shared ownership has for the most part been a public sector product and tended to be led by grant or section 106 funding, resulting in a long-term undersupply of SO and a lack of competition and few incentives to either improve the product or expand its availability. This has now changed fundamentally, as equity investors have shown an appetite both to provide SO and to buy up books of existing SO homes, especially in London and the South East. Given that this is designated affordable housing it also allows investors to offer ESG (environmental, social, and governance) bonds for which there is a ready and expanding market.

Heylo, a private company and SO provider (via new build and book acquisition) for some years, has agreed significant loan finance with Blackrock and has also developed the Home Reach SO product for new build homes. Alongside Heylo, and perhaps more significantly, for-profit registered providers (FPRPs) have been buying up portfolios of SO homes that are reaching the market, as not- for-profit RPs rework their budgets and operations to deal with cladding, fire safety and the issues discussed earlier.[35] Hyde, for example, has sold 422 SO homes to an FRP, who will now fund up to 2,000 new ones. FPRPs currently own around 12,000 SO homes (March, 2021) but the expectation is that they will continue both to acquire and to build SO stock. Savills suggest that by 2026 they could have delivered 100,000 new homes for SO and rent; in practice much of this is likely to be SO.

New interest is also being shown in reviving the largely defunct Do it Yourself Shared Ownership (DIYSO), by which households opted for SO on an existing home rather than via new build. This was popular with older households – in some cases downsizing to more expensive areas – and with other households who preferred to buy in established areas. DIYSO was funded by the Housing Corporation in the 1980s and 1990s: it was expensive in grant terms and did nothing for new supply.

Without doubt there is a continuing case for a product that helps households buy existing homes and not least as a mechanism to assist movement within the market by a variety of otherwise 'trapped' households. The question now is whether there may be an appetite for lenders and investors to re-invent this product and bring it back to market? While Northern Ireland, Scotland and Wales all have small schemes which cover the purchase of existing homes, there is none in England where the greatest need exists.[36]

There is thus the potential to see a radically transformed SO market given that at last we are beginning to see increased supply, competition and innovation. That might then reinvigorate the current housing association-dominated market with the prospect of bridging more of the affordable homeownership gap over the next decade?

Can governments focus more on delivering social rented homes?

If the market does deliver more, then will the pressures on government to support the market be reduced, allowing them to focus on ensuring there are affordable homes to rent? While the expanded Build to Rent and Buy to Let markets may provide some better quality (but possibly more expensive) homes for those waiting to access homeownership, the reality is that there are limits to how far homeownership can reach down the income spectrum. A large proportion of lower-income households still need social rented homes and in Scotland, Wales and Northern Ireland the governments have made political choices to focus their efforts on providing them.

In England, diverting funds away from supporting homeownership might help in the short term, but higher output will inevitably require more public funding. To help make the case, the housing sector has offered broader arguments for increasing rented output, in addition to that of meeting urgent housing needs. For example, a range of studies have shown the wider social and economic benefits of creating a bigger stock of social rented homes (rather than a diminishing one, as is currently the case), in some cases arguing that the fiscal costs are outweighed by the benefits in terms of pay-back to the Exchequer.[37] A study by CIH with the Centre for Homelessness Impact indicated that a modest increase in social rented output of 10,000 units annually could be largely funded from consequential savings in housing benefit and temporary accommodation costs.[38]

However, a study by the NHF of the funding needed to achieve the much bigger rented programme required to meet the levels of need projected by Bramley would be well in excess of the current AHP, and furthermore would require much higher grant levels per home.[39] This position has been reached because successive governments have ignored the backlog of unmet need that has been growing year by year, and now demands much more investment than would have been the case if it had been addressed earlier. Scotland offers a lesson in this respect, having maintained high levels both of total funding and of grant per unit, and indeed having recently increased grant levels to support a further expansion of its investment programme.

Apart from direct public support, we have already pointed to the huge role played by developer contributions in England, and how vital it is that this continues. Yet in addition to the problem already noted that First Homes will displace new rented provision, an additional threat is the wider changes to the planning system which could also affect affordable output. Since the government's proposals were analysed in the 2021 *Review*, several reports have highlighted the risks they pose, with recommendations for ways in which they could be modified so as to continue to deliver affordable housing.[40] For example, affordable requirements could be made an explicit part of planning permissions, ensuring both that they are delivered and that they form part of mixed developments. The government is undertaking a further review of its planning policies and it is vital that it takes these risks into account and ensures that the planning system continues to provide a large volume of low-cost rented accommodation.

The consequences of the long-term undersupply of social rented homes for those unable to buy or rent decent homes are threefold. First, it increases the numbers of lower-income households obliged to use the less attractive parts of the PRS, often in high-rent, poorer-quality and insecure accommodation. Affordability is a particular problem for private renters on low incomes: 69 per cent of renters in the two lowest income groups spend 30 per cent or more of their income on rent (in London and the South East, proportions rise to over 90 per cent). There are 1.2 million PRS households with low incomes and high rents and some 30 per cent of all those in poverty (after housing costs) live in the PRS.[41]

Second, it stops many households finding suitable accommodation at all, ending up in overcrowded conditions, sharing, sofa-surfing or using other forms of insecure shelter, or becoming street homeless. Already some 200,000 households in England are subject to what is called 'core homelessness' (see Commentary Chapter 5 in recent editions of the *Review*). An insufficient supply of affordable homes has driven these numbers up and they will continue to rise until investment reaches the necessary levels.

Finally, its failure to deliver more social rented homes leaves open the question of how far the UK government can really meet its promise to 'level up' between regions. It is often overlooked that, although housing pressures are at their greatest in London and the South, the biggest losses of homes at affordable rents have taken place in Northern England: these three regions have seen a fall of more than one-fifth in their affordable stock in three decades (see Compendium Table 22). Less surprisingly, Northern England also has the highest proportion of dwellings that fail to meet the Decent Homes Standard.

Our conclusion is that, whether viewed regionally or across different income groups, closing the housing affordability gap remains crucial to delivering the government's commitments. If it is serious in its aims of 'levelling up' and reducing inequality, it must not only help those who can afford homeownership to achieve it, but also ensure that the huge numbers of households who cannot buy still have access to decent and secure homes at affordable rents.

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Part 2 The Supply of Housing

Chapter 4

Planning frameworks and housing delivery

Mark Stephens

UK Housing Review 2018

In response to widely recognised shortages in housing supply, the planning system's role in providing private housing and resourcing the provision of affordable housing and infrastructure is receiving much greater attention. The modern planning system in England, Wales and Scotland originated in the 1947 Act, but each country is now able to pass its own primary legislation. Moreover, each is now undertaking reform of its planning system, as is Northern Ireland. As in housing policy, there is scope for divergence in planning policies in the different parts of the UK, despite these shared origins.

This chapter summarises the planning frameworks as they now operate and identifies patterns of convergence and divergence between the four countries. Particular focus will be placed on approaches to the use of planning gain to resource affordable housing and infrastructure. We also examine the introduction of viability tests in England which can be used to reduce a developer's affordable housing obligations, as well as the lags that occur between the granting of planning permission and the building out of permitted sites.

Planning policy in a devolved United Kingdom

The modern planning system established by the Town and Country Planning Act 1947 applied across Great Britain.[1] It nationalised development rights, but adopted an assumption in favour of development. The current version of the system is 'plan led' which means that individual planning decisions should be made in accordance with planning policies unless other 'material considerations' apply, so reflecting the system's distinctive discretionary nature. Across the UK developers may appeal against a refusal by a planning authority, but no equivalent right is enjoyed by third parties.

In England, the main piece of consolidating legislation remains the Town and Country Planning Act 1990, but there have also been significant subsequent changes, notably the 2008 Planning Act which introduced the Community Infrastructure Levy and the Localism Act 2011 which introduced the framework for neighbourhood planning. In addition, the Cities and Local Government Devolution Act 2016 paved the way for new, directly elected mayors to combined local authorities in England, together with devolved powers including planning. Seven such 'metro mayors' were elected in May 2017 following devolution agreements for Cambridge and Peterborough, Greater Manchester, Liverpool City Region, Sheffield City Region, Tees Valley, the West Midlands and West of England.

The National Assembly for Wales initially only enjoyed control over secondary legislation, so the basis of the Welsh system remains the same 1990 Act which applies in England. The 2008 Act, which introduced the Community Infrastructure Levy (CIL), also applies in Wales, although the Wales Act 2017 has now devolved responsibility for CIL. However, in 2011 the Westminster parliament granted the Welsh Assembly the power to pass primary planning legislation in this area and it did so in 2015. The Planning (Wales) Act 2015 embedded the plan-led system and introduced the National Development Framework that is now being developed and will replace the Wales Spatial Plan which was first adopted in 2004. The Law Commission is working on proposals for consolidating planning law in Wales.

The Scottish Parliament has enjoyed the competence to legislate fully on planning since its inception in 1999. However, as in many areas of policy, planning was already subject to separate legislation and the pre-devolution 1997 Act still forms the basis of the system. The Scottish Parliament amended it in 2006 and ministers introduced another planning bill to the Scottish Parliament in December 2017.

The 1947 Act did not apply to Northern Ireland where planning was already devolved, largely based on an act passed in 1944.[2] However, as was the case with housing, the UK government removed planning responsibility from local authorities in 1972 and placed it in the hands of the Department of the Environment in order to prevent discrimination on sectarian lines. Between the suspension of the Stormont Parliament and the establishment of the Northern Ireland Assembly, UK ministers effectively controlled planning policy. Responsibility has now returned to the Northern Ireland Executive, although complicated by the fact that it is currently suspended. In 2015 a reform of public authorities and a new plan-led planning system introduced in the 2011 Act moved responsibility for much of the planning system to 11 new local authorities, which are now developing local development plans alongside community plans.

Regional level planning

Formal regional-level planning structures ended in England outside London after 2010, but look likely to re-emerge in another form. The Westminster government is responsible for national policies contained in the National Planning Policy Framework, as well as its interpretation through Planning Practice Guidance. Local authorities are responsible for local plans within this framework. Regional Spatial Strategies, which were introduced in 2004 (outside London) and were intended to address regional issues such as housing that cut across local authority boundaries, were abolished by the coalition and replaced with a duty on local authorities to 'co-operate'. However, a regional tier is retained in London where the Mayor is responsible for a city-wide plan, and provision is made for this in the city regions (see above). The Greater Manchester Combined Authority, for example, is developing a spatial strategy to secure land for housing and other functions.

Scotland retains a regional planning tier in most of the country, but this is likely to change. At the national level, the Scottish Government is responsible for Scottish Planning Policy (SPP) and the National Planning Framework (NPF) as well as issuing guidance. Each of Scotland's 32 unitary authorities is responsible for producing a local plan. In addition, Strategic Development Plans (SDPs) are centred on the 20 local authorities that make up the four city regions of Glasgow, Edinburgh, Aberdeen and Dundee. The Scottish Government intended SDPs to address cross-authority issues including the provision of land for housing. However, following a review of planning policy, the current planning bill proposes to abolish this regional tier on the grounds that SDPs are 'too prescriptive, generate overly-complex and lengthy statutory processes and resultant substantial costs, and are limited to only Scotland's four largest city regions'.[3] Although, as is the case in England, the planning bill envisages a duty on local authorities to co-operate, this appears to be part of a centralising strategy. Local authorities will have a duty to co-operate in providing information to the Scottish Government whose NPF will not only absorb SDPs, but 'will also expand to incorporate a more focused strategic planning element at the regional scale, in addition to its existing national focus'.

Meanwhile, Wales is moving towards *establishing* a regional tier of planning to sit between the National Development Framework and local development plans. The 2015 Act provides for the establishment of Strategic Planning Panels empowered to draw up Strategic Development Plans. Such regional plans are not obligatory and are likely to have most relevance around the largest cities; City Deals are already in place centred on Cardiff, Swansea and the North Wales A55 corridor.

Northern Ireland's planning system has restored the role of local authorities within national-level policies contained in the Programme for Government and the Regional Development Strategy.

Neighbourhood planning

There has also been a trend towards neighbourhood planning. The Westminster government provided for neighbourhood plans in England in the Localism Act 2011. These may be developed by community or parish councils (or a bespoke forum where these do not exist) within the frameworks of national and local (authority) policies and objectives. They are subject to approval in a referendum and examination process. Once approved they become part of the local plan; they must be taken into account when decisions are made by the local planning authority on planning applications in the area they cover. This initiative has evoked widespread interest. In March 2017 there were 280 neighbourhood plans in force, and 300 had passed referenda.[4] A selective list of referenda suggests that they are passed with overwhelming majorities (often over 80 per cent in favour), but on turnouts that rarely exceed 40 per cent of the electorate. Moreover, research suggests that they are disproportionately located in the south, rural and more affluent areas, and that they give disproportionate influence to older people. Often communities have used them as a means of blocking developments.[5]

The current planning bill in Scotland provides for 'local place plans' to be developed by communities. The planning authority may then incorporate them into local development plans. The tension inherent between empowering communities and the Scottish Government's aspiration to speed up development is reflected in the assertion that:[6]

It is critical that planning reflects the views and aspirations of the communities it seeks to serve. Equally, it is important that local place plans (LPPs) support, rather than undermine, the LDP [Local Development Plan], and provisions have been designed to avoid reducing the capacity and willingness of communities to play a part in designing the wider LDP.

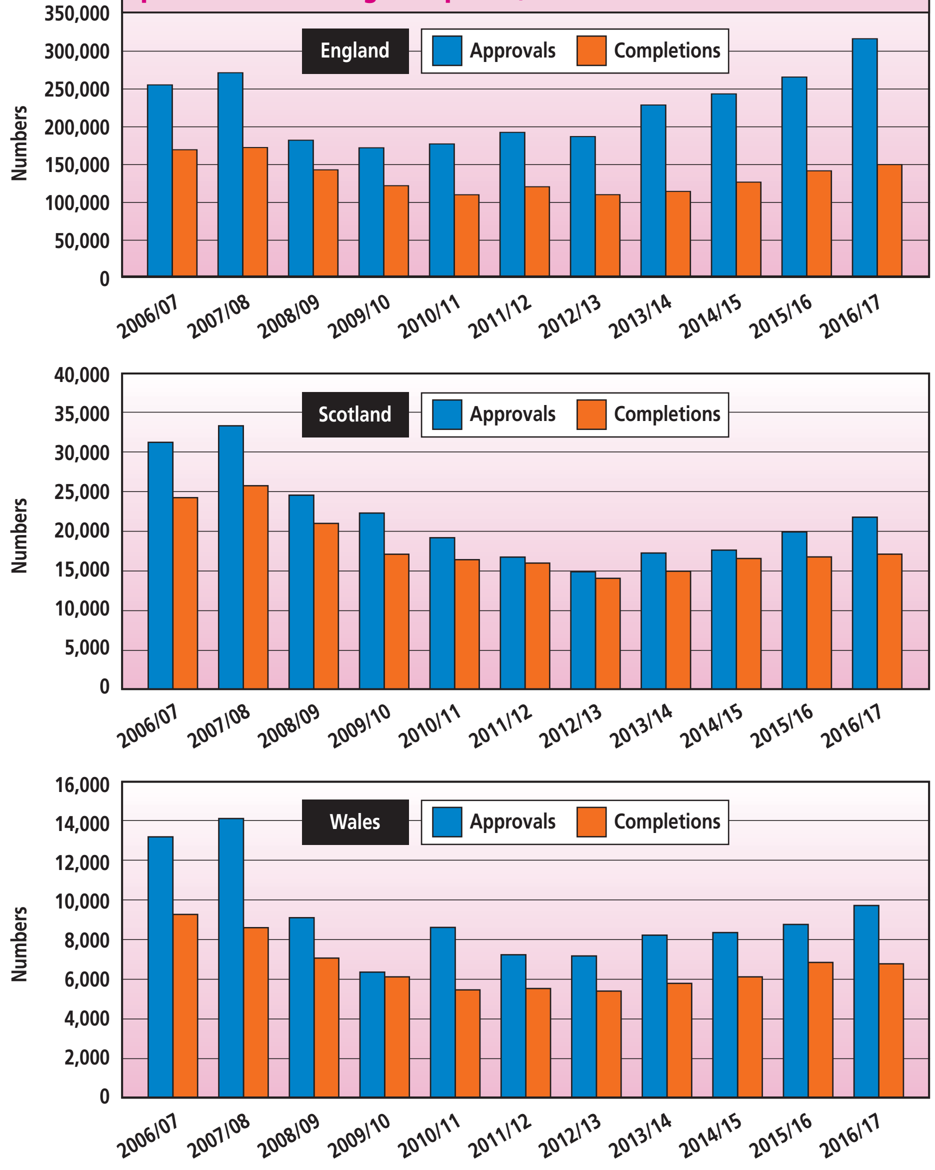
Northern Ireland now provides for community planning, but responsibility lies with the local authority (rather than local communities) and the legislation lists statutory partners which must be consulted. The Welsh Government has introduced 'place plans', which can be formally adopted as supplementary planning guidance to the local development plan.

Housebuilding and build out rates

Whilst the planning system is still widely perceived as having some responsibility for constraining housing supply, attention has also increasingly focussed on the building industry. The argument is that large housebuilders 'sit on large amounts of suitable land and develop it slowly in order to keep prices high'.[7] The Home Builders Federation suggested to the House of Lords Select Committee on Economic Affairs that this phenomenon was almost entirely attributable to land owned by non-developers. MHCLG claimed that, since planning permissions are normally time-limited, there is little incentive to hoard permitted land.

Figure 4.1 shows the number of housing units securing detailed planning approval and the number of dwellings completed in England, Scotland and Wales, over the period 2006/07 to 2016/17. The charts indicate that the numbers of units given detailed planning permission exceeded the numbers completed in each nation and in each year. By the end of the period, units completed lagged behind planning permissions by almost 39,000 in Scotland, nearly 28,000 in Wales and by more than 1 million in England. The relationship is uneven between the countries, too. Whilst the number of units completed represented 84 per cent of the number of new permissions in Scotland and 72.5 per cent Wales, the figure for England is only 59 per cent.

Figure 4.1 **Housing units securing detailed planning approval and permanent dwellings completed, 2006/07-2016/17**



Source: Glenigan, New Housing Pipeline, Q2 2017; ONS Live Table 209.

The Westminster government responded to the House of Lords Select Committee report by stating, '... it is the responsibility of the housebuilding industry to be more transparent and forthcoming in agreeing a trajectory for build out rates on sites with local authorities'.[8] Following a recommendation in the committee's report, in his 2017 Autumn Budget the Chancellor announced an 'urgent review' of the gap between planning permissions and building, to be chaired by Sir Oliver Letwin. This will 'identify the principal causes of the gap, and identify practical steps that could increase the speed of build out'. An interim report is expected in the Spring and a full report in time for the 2018 Budget.

Clearly, the review has yet to find the reasons for the gap. However, the Chancellor indicated that he would be prepared to use 'direct intervention compulsory purchase powers as necessary' and warned that 'no one should doubt this government's determination to [fix this problem]'.[9] The select committee favoured empowering local authorities to levy council tax on developments not completed within a set time period.[10]

The Scottish Government is alert to the question of build out. Its formal position is to 'explore options' around compulsory purchase and sale orders and a development land tax, separately from the current planning bill.

Planning agreements and affordable housing

England

Since the 1990 Act, section 106 planning agreements have become a vital means of resourcing new affordable housing. Although some commentators have disputed their underlying rationale, studies suggest that, as an instrument of land value capture, s106 agreements have been far more effective than previous development taxes.[11] Their relative success has been attributed to being locally determined (rather than fixed nationally), discretionary, flexible to local and site-specific circumstances, hypothecated, and re-used locally.[12] Whilst one would expect the introduction of the Community Infrastructure Levy in England and Wales from 2010 to reduce the scope for s106 agreements, research by CCHPR suggests that there is no conclusive evidence that CIL has caused a reduction in affordable housing provided in this way.[13] In 2016/17 more than 18,000 affordable homes were provided in England through planning gain, or 43 per cent of the total.

However, there has been an increasing focus on 'viability' tests, whereby developers seek to reduce or remove any affordable housing contribution from a development. In response to the recession, legislation in 2013 allowed parties to renegotiate agreements where they made a scheme unviable, although this expired in 2016. Nonetheless, national planning policy in England states that to ensure viability where planning obligations are being considered these should still 'provide competitive returns to a willing landowner and willing developer to enable development to be deliverable'.[14]

Planning guidance further elaborates the role of viability tests:[15]

> *Decision-taking on individual schemes does not normally require an assessment of viability. However viability can be important where planning obligations or other costs are being introduced. In these cases decisions must be underpinned by an understanding of viability, ensuring realistic decisions are made to support development and promote economic growth.*

Neil Crosby of the University of Reading has argued that current government and RICS guidance encourages the use of a viability model that allows normal planning obligations (rather than the developer's profits or the land value) to become the residual.[16] This occurs by shifting the land price outside the model by using comparable transactions, and holding the developer's return constant. A developer may therefore bid more for the land and pass the cost on to the planning authority through contributing zero or fewer affordable housing units rather than by reducing profits.

There have been high profile controversies about levels of affordable provision, particularly surrounding the demolition and replacement of council estates in inner London. There are many individual examples of developers successfully reducing their affordable housing requirements. A study of the 82 largest housing developments in ten major cities by the Bureau of Investigative Journalism found that only 40 per cent of them complied with local targets for affordable housing.[17] The Bureau found that at least half of developments in Bristol, Bradford, Cardiff, Manchester and Sheffield failed to meet these targets. It found that developers were making widespread and effective use of viability tests to reduce their commitments – either by reducing the number of units or switching to affordable tenures that required a lower contribution per unit.

The Bureau's study was conducted in 2013, and we sought to identify whether this trend is continuing. We inspected the website of s106 Management, a company that examines 'the necessity and viability of requirements for Section 106 affordable housing by Local Planning Authorities (LPAs)' on behalf of landowners and developers.[18] Table 4.1 provides five examples taken from its website. They are illustrative rather than representative, and indeed have been selected only for developments involving more than ten houses – the threshold that the Westminster government now applies for affordable housing obligations to be considered. However, it is also the case that none of the examples are of large new-build estates. The five examples do illustrate that developers have used viability tests across England, and the sums involved can be considerable.

Table 4.1 **Examples of viability tests reducing affordable housing requirements**

Local Planning Authority	Year	Development	Normal requirement/ request from LPA	Outcome and claimed saving to developer
Cornwall CC	2015	Site of derelict business premises: 27 houses, 131 flats, 1161m^2 offices, 600m^2 retail, 50-room hotel, a microbrewery	Request for 40% affordable homes in line with council policy	Zero contribution (saving £106,328)
LB Sutton	2014	Conversion of premises to form 13 self-contained flats	6 affordable housing units in line with council policy	Zero contribution (saving £500,000)
Stockport MBC	2015	Erection of 4 detached and 6 semi-detached houses on vacant site	40% affordable housing under council policy	Zero contribution (saving £106,328)
Stroud DC	2013	51 dwellings on brownfield site	15 affordable homes + £56,250 for recreation facilities	Permission for 49 open market houses (saving £750,000)
Thurrock DC	2013	41 flats and 270m^2 of shopping space	14 affordable homes under council policy	Zero contribution (saving c. £1 million)

Source: s106 Management (see www.s106management.co.uk/case-studies).

Overall the Centre for Progressive Capitalism estimates that £2.8 billion of land value uplift arising from newly built homes was captured through s106 agreements and CIL in 2014/15, but £9.3 billion was not captured.[19]

This is clearly an area of potentially great significance. It involves effective implementation through planning policies and guidance, professional practice, and the appeals and court systems. The importance of planning gain in providing affordable housing is recognised by the announcement of a Communities and Local Government Select Committee inquiry into 'the effectiveness of current land value capture methods and the need for new ways of capturing any uplift in the value of land associated with the granting of planning permission or nearby infrastructure improvements and other factors'.[20]

Scotland

Scottish legislation (section 75 of the 1997 Act) also makes provision for developer contributions towards affordable housing. Current national Scottish Planning Policy (dating from 2014),[21] defines affordable housing broadly as 'housing of a reasonable quality that is affordable to people on modest incomes' and may include mid-market rental accommodation and houses sold at a discount. Policy cautions local authorities against threatening viability by demanding excessive contributions, and states that affordable housing requirements 'generally be no more than 25% of the total number of houses'.

The Scottish Government no longer provides statistics on the number of affordable homes provided through planning agreements. However, the planning review established in 2015 suggested that the proportion of major developments with legal agreements in place declined from 30 per cent in 2013/14 to 22 per cent in 2014/15.[22] It also identified widespread geographical variations in its use because 36 per cent of agreements were in two local authorities. Generally, the practice appears to be less widely used than in England, although this is partly attributable to lower average house prices and consequently a smaller average land value uplift than in England. The review claimed that s75 agreements were 'stretched to the limit' and:

> *… there is compelling evidence that they contribute significantly to delays in the development management process. For major developments, a Section 75 [agreement] is likely to double the decision making timescale.*

The planning bill enables ministers to establish an infrastructure levy through secondary legislation, payable to the local authority. More broadly, both the planning review and broader debate favour a deeper investigation into mechanisms for land value capture, and the recently created Scottish Land Commission's programme includes research into this and land value taxation.

Wales

Provision for developer contributions is derived from the 1990 Act that applies to England, although the Welsh Government issues its own guidance. The number of units of affordable housing delivered through planning obligations has risen from 384 in 2013/14 to 932 in 2016/17 (the highest number since records began in 2007/08).[23] These figures represent 15.9 per cent and 39.6 per cent of the total number of affordable homes completed respectively.

Northern Ireland

Section 76 of the 2011 Planning (Northern Ireland) Act provides for developer contributions, but they are used rarely if at all for affordable housing. The Department for Social Development commissioned a report on their potential use which found that they would render developments unviable in most of Northern Ireland.[24] It suggested that it would be impractical to operate such a scheme without the government supplementing it with a grant. It recommended that benchmarks for affordable housing provision should be set locally to take account of market variations. The report was published in December 2015 but no further action has been taken, in part because the Northern Ireland Executive is currently suspended.

Conclusions

The planning systems in England, Wales and Scotland are derived from the same GB-wide 1947 Act. Across the UK, administrations are concerned that the planning system facilitates rather than inhibits development, particularly housing development. There are differing responses to this: Scotland is following England in abolishing regional-level planning but in contrast Wales is moving towards having a regional-level planning tier.

Attention is also focussing on the housebuilding industry, and the question of build-out rates lagging behind the granting of planning permissions. A government review is taking place in England, whilst the Scottish Government is still considering its options.

In a climate of fiscal austerity, administrations are particular concerned about how infrastructure is paid for. Attempts at utilising land value capture to help to resource affordable housing and wider infrastructure needs are accepted across Great Britain, although Northern Ireland seems unlikely to introduce section 106-type arrangements. The Community Infrastructure Levy, legislated for in England and Wales a decade ago, finally appears in the current planning bill in Scotland. However, the Scottish Government has yet to decide how and when it will be implemented. In Scotland there is also interest in exploring other mechanisms for land value capture, including land value taxation.

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Part 2 The Supply of Housing

Chapter 5

The zero-carbon challenge

John Perry

UK Housing Review 2021

The urgency of tackling the climate crisis has been underlined by news that 2020 was, along with 2016, the warmest year in the Earth's recent history. New research into ocean temperatures also revealed that the planet is hotter than it has been for at least 12,000 years. Amidst criticism that action is being taken too late and too slowly, governments worldwide have begun to respond to the crisis via programmes to reduce greenhouse gases and, in particular, carbon dioxide (CO_2) emissions. Moreover, with the next UN climate summit (Cop26) taking place in November in Glasgow, 2021 was described by the BBC as a 'crunch year' for tackling the climate crisis, a message repeated by the *Financial Times*, *New York Times*, *The Independent* and other media.[1] Similar messages have been given to the readers of tabloid newspapers, such as *The Sun*.[2]

There have been widespread calls for a 'green recovery' from the pandemic, with the official Climate Change Committee (CCC) urging the government to 'use climate investments to support economic recovery and jobs'. Housing has been the focus of many of the green initiatives called for or announced in advanced economies, including the UK, for at least three reasons. One is that action can be taken relatively quickly in the domestic sector compared with (say) transport. Another is that insulating homes creates jobs – possibly up to 86,000 annually across the UK.[3] And the most important reason is that around 40 per cent of emissions are from households and their activities (including travel), with heating homes and cooking food specifically accounting for 15 per cent. The CCC, which monitors UK progress on climate targets, said that reaching net zero is not possible 'without near complete decarbonisation of the housing stock'.

This chapter looks specifically at what is required to achieve 'zero carbon' in UK homes, concentrating on the fabric of dwellings and domestic energy consumption. It considers:

- the UK's emissions targets
- issues in translating emissions targets into targets for housing
- emissions from energy supply as a key factor in decarbonising homes
- achieving 'net-zero carbon' in new homes and in the existing stock
- whether the targets will be achieved
- the action now required to meet the targets.

Achieving zero carbon does of course have implications for the whole of a landlord's operations, e.g. construction, products, travel, vehicle fleets, offices, water consumption, etc., but this chapter focuses on decarbonising the housing stock itself.

The UK's emissions targets

Under the Climate Change Act 2008, the UK was committed to reducing net greenhouse gas emissions by at least 80 per cent below their 1990 levels by 2050. Then in June 2019, the legislation was amended to require a 100 per cent reduction in the UK's net emissions (again relative to 1990 levels) by 2050. If achieved, the UK would become a 'net-zero' emitter. 'Net-zero carbon' (NZC) means that total CO_2 emissions are equal to or less than the emissions the UK removes from the environment. This must be achieved principally by emission reduction but can also rely to some extent on emission offsetting or removal (e.g. measures such as tree planting or carbon capture).

Since 2008, the government has set five-year climate targets, called 'carbon budgets', produced by the Climate Change Committee (CCC). The latest carbon budgets embody the UK target of net-zero carbon by 2050 and they also spell out how it relates to the devolved administrations. The net-zero target for Scotland is earlier, 2045, while the Welsh target is to reduce emissions by 95 per cent (on 1990 levels) by 2050, or to achieve net zero if possible. The CCC recommends an 82 per cent reduction by 2050 for Northern Ireland, with an interim target of 48 per cent by 2030.

Targets set under the first three carbon budgets were achieved: output of greenhouse gases has gone down by around 45 per cent from 1990 levels. However, there is considerable doubt as to whether the fourth and subsequent budgets can be met, and specific warnings have been issued about lack of progress in housing. As the latest carbon budget says, 'we won't reach NetZero simply by wishing it'.[4]

In addition to its domestic commitments, under the 2015 Paris Agreement the UK and other signatory countries are committed to keeping emissions in line with the goal of a 1.5°C limit on global temperature rise. All signatories had to produce policy statements called Nationally Determined Contributions (NDCs) by 2020; the UK's NDC was published in December 2020 and sets out the most ambitious targets yet for reducing emissions (see Figure 5.1). It focuses on targets for 2030, which are meant to show the pathway to the government's goal of net-zero emissions by 2050. By 2030, the government's new aim is for emissions to be 68 per cent below 1990 levels, a significantly tougher target than the previous aim of a 57 per cent reduction and one which will put the UK among the first countries to bring domestic emissions into line with the goal of limiting global temperature rise to 1.5°C.

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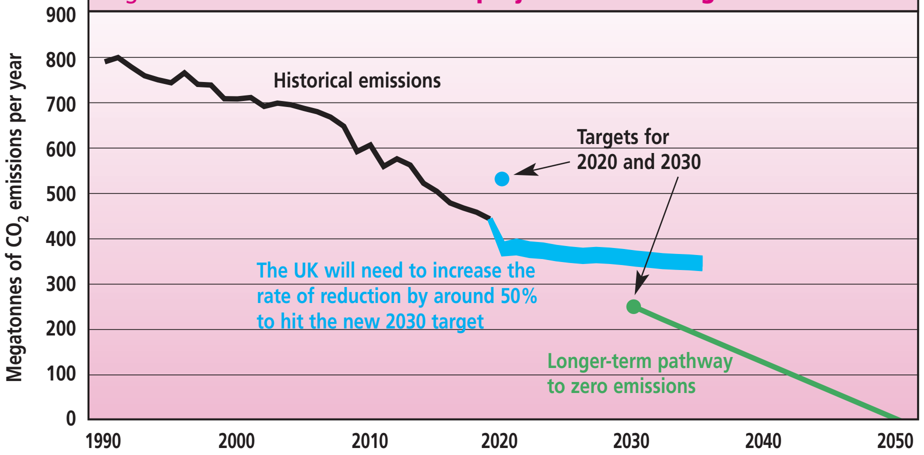
The NDC has mainly won plaudits for its ambition, but critics say there are major hurdles ahead. The UK will need to adopt and implement rigorous policies to achieve the new target and firmly set itself on a faster path to net zero. The next ten years are critical because global CO_2 emissions must be cut by about half their present levels by 2030. For example, around 87 per cent of the UK's electricity will need to come from low-carbon sources by the end of this decade, up from just over half now.

Figure 5.1 **UK carbon emissions: projections and targets**



Source: Climate Action Tracker.

Issues in translating emissions targets into targets for housing

Housing is one of the sectors in which firmer targets and a clearer strategy to achieve them still need to be set. However, there are several reasons why this is not straightforward:

- *Separate targets are needed for new and existing stock.* The very different nature of new build and retrofit suggest not only that the pace of change in each will be different, but also that there are key differences in the approaches required. For example, in new build it is easier to minimise 'embedded carbon' (energy used in materials and in construction). It is also possible to specify fabric standards in building regulations and to achieve those standards via off-site construction. With new build, even in the private sector, there is a clear 'trigger point' for action, whereas for existing private homes trigger points are less clear (on resale, on reletting?). Furthermore, much retrofit is likely to be phased, with the additional complication that work done at an early stage should not have to be redone to achieve higher standards later.

- *Private finance must be mobilised.* Most of the stock is privately owned and needs substantial retrofit work. While pump-priming public money is important, attractive financial packages are required to encourage owners to invest. The government has an innovation fund for green finance,[5] it is slowly gaining traction but lenders still struggle given that energy costs are low and thus incentives are limited. More progress has been made in the EU where 23 lending institutions have adopted the Energy Efficient Mortgage Label.[6]

- *Social housing needs a balance of public funding and self-financing*. With retrofit costs in excess of £20,000 per dwelling, the social sector needs both initial government funding and the ability to develop long-term sustainable finance, whether through so-called 'warm rents' (i.e. rents raised to reflect part of the savings in a tenant's fuel bills) or other mechanisms.

- *Compliance and monitoring pose unique problems*. The housing stock is in multiple ownerships but unlike (say) vehicles, homes are rarely replaced. Compliance depends on persuasion; retrofit depends on multiple installers and new materials which present challenges even greater than installing from new (of which a tragic example was the Grenfell Tower fire). Monitoring of the results is intrinsically difficult (e.g. much insulation work cannot be readily inspected once it is completed). A 'performance gap' between predicted and actual results is far too common. Energy Performance Certificates (EPCs) have several weaknesses and government is committed to reviewing how they work.

- *A complex division of responsibilities has to be overcome*. Whereas the overall targets are set at UK level and administered by the Department for Business, Energy & Industrial Strategy (BEIS), housing policy is administered by MHCLG and, as a devolved function, by the respective departments in the other UK administrations. This means that the UK housing targets are, in practice, subject to reinterpretation in Scotland, Wales and Northern Ireland, as explained below and that monitoring arrangements, to determine whether UK targets are being met, are shared between a range of Whitehall and devolved departments and agencies. In addition, of course, targets are likely to have to be set in different ways and with different monitoring arrangements in the different housing tenures.

- *Expectations about decarbonising the electricity grid underly housing targets*. In theory, the more the stock relies on electricity as its energy source for heating, cooking and appliances, and the more the grid decarbonises, the less work is needed to improve the stock's fabric standards. However, to meet higher domestic requirements and provide for vastly more electricity use in vehicles, the grid's capacity will have to grow. The issue has clear implications for setting standards and is discussed in more detail below.

- *Fabric first or heating first?* A related issue is about priorities. A 'fabric first' approach – prioritising energy efficiency in the fabric of the dwelling via improved insulation and other measures – is logical, because the more efficient the fabric the lower the heating requirement. However, both the Whitehall and Scottish governments have set targets to promote low-carbon heating and phase out gas boilers, a priority supported by CCC-commissioned research which shows that rapid CO_2 savings should result.[7]

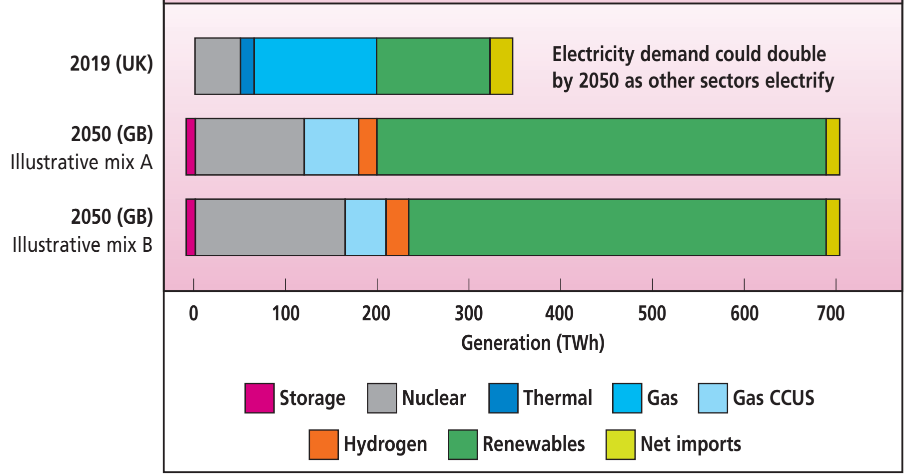
Because the last two issues are both crucial and raise more general issues, they are now considered in more detail.

Emissions from energy supply as a key factor in decarbonising homes

A vital factor in decarbonising dwellings is their energy supply, especially for heating. Currently, home heating is largely powered from non-renewable sources such as gas or oil while the alternative, electricity, is still roughly 40 per cent dependent on high-carbon power sources. Broadly speaking, there are two routes to decarbonising home-energy supply: switching to electricity and drastically reducing fuel bills through 'fabric first' investment or waiting for the gas supply to be decarbonised.

The first scenario depends on a huge shift in the capacity of power generation and distribution, as well as in how the power is generated. This is because electricity demand is forecast to double by 2050 as it becomes the main power source for the whole economy, including vehicles as well as homes. Figure 5.2, from the Energy White Paper, shows the current mix of power sources (for 2019) and two alternative scenarios for a doubled supply of electricity in 2050. Scenario A puts major reliance on renewables while Scenario B relies more on nuclear power. Either results in near-decarbonisation of the grid but both are very challenging to achieve.

Figure 5.2 **UK energy mix today and scenarios for 2050**



Source: Energy White Paper, 2020.
Note: Gas CCUS is gas using carbon capture, utilisation and storage technologies.

Under a scenario where the only home-energy supply is electricity, space heating would require either air- or ground-source heat pumps or – if the building fabric is highly energy-efficient – smaller electric heating systems managed by smart controls; cooking would use electricity rather than gas. The government has set a target to achieve 600,000 heat pump installations per year by 2028 and is likely to prohibit the installation of conventional gas boilers in new homes from 2025. It promises a new Heat and Buildings Strategy 'early in 2021'. The Scottish Government is already consulting on a target of one million homes being converted to low-carbon heating by 2030, with at least 64,000 households installing renewable heating systems per year by 2025.[8]

The government's plans for the Future Homes Standard (FHS) explicitly rely on decarbonised electricity:[9]

> *As we move towards a decarbonised electricity grid, homes built to the Future Homes Standard will become net zero carbon over time with no need for further adaptations or changes, as they will not be reliant on fossil fuels for their heating.*

In other words, homes will be 'zero-carbon ready', becoming truly zero carbon only when the grid is decarbonised. Many respondents to the FHS consultation called for even tougher fabric standards, arguing that the FHS should be designed to reduce the burden on the grid because doing so would help decarbonise it more swiftly.

The second scenario, decarbonising the gas supply, would rely on the mass production of 'green hydrogen'. This is envisaged in both the Energy White Paper and the prime minister's *Ten Point Plan for a Green Industrial Revolution*. Gas is a cheap fuel source and replacing it with an alternative that uses much of the same infrastructure appears an attractive option. However, green hydrogen requires technology that is only in the early stages of development and is produced by electrolysing water, which is a low-carbon process only if the electricity comes from renewable sources.

Faced with a choice between reliance on electricity or waiting for low-carbon gas, with uncertainties around both energy sources still to be resolved, a 'fabric first' approach looks the safest choice, as it would reduce home energy costs to a minimum while keeping open future options as to how they are supplied.

There are other strategic issues about energy in the home, such as the potential of low-carbon heat networks and of domestic power generation through solar panels, and whether homes should have the capacity to store energy (e.g. in battery systems). Landlords and homeowners face complex choices and decisions with unclear and often confusing advice from government.

Achieving 'net-zero carbon' in new homes

A 'net-zero home' is one which is highly energy-efficient and fully powered from renewable energy sources, with any remaining emissions offset via recognised methods. The implications for new build are clearly very different from those for existing dwellings. Achieving net zero in new build aims to cut emissions not only from the building's use but also from its construction ('embedded carbon'). This is included in the UK Green Building Council's 'Framework definition' whose main steps have been summarised by CIH (see box).

Net-zero carbon homes – the Framework definition

The Framework definition set by the UK Green Building Council has two components:

Constructing the dwelling: 'When the amount of carbon emissions associated with a building's product and construction stages up to practical completion is zero or negative, through the use of offsets or the net export of onsite renewable energy.'

The dwelling's energy in use: 'When the amount of carbon emissions associated with the building's operational energy on an annual basis is zero or negative. A net-zero carbon building is highly energy efficient and powered from onsite and/or offsite renewable energy sources, with any remaining carbon balance offset.'

CIH has summarised the main steps to achieve net-zero carbon using the Framework definition as:

1. Look at both energy use in construction and use of energy in the completed home.
2. Cut the carbon costs of construction – assess them and offset them.
3. Cut operational energy use – give this priority and monitor the results 'in use'. This is likely to require a 'fabric first' approach:
   - very high levels of insulation
   - high performance windows with insulated frames
   - airtight building fabric
   - no 'thermal bridges' in the building's construction
   - possible use of mechanical ventilation with highly efficient heat recovery
4. Increase renewal energy use – whether on-site or from off-site sources.
5. Offset any remaining carbon via a recognised framework.

Sources: UKGBC (2019) *Net Zero Carbon Buildings: A Framework Definition*. London: UKGBC; CIH (2020) *Warm Homes and a Safe Environment*. Coventry: CIH and Orbit.

In October 2019, the government announced its Future Homes Standard and consulted on interim steps towards its introduction in England in 2025. These include toughening the fabric standards set by the building regulations to produce a 31 per cent cut in CO_2 emissions when they take effect in 2022. Then from 2025, the full FHS will apply, bringing fabric standards equivalent to or in some cases more stringent than those set out in the very exacting Passivhaus standard, the exception being air tightness. A new home built to the FHS will emit 75-80 per cent less CO_2 than one built to 2019 standards. The detailed FHS will be set in performance terms, such as minimum levels of primary energy and CO_2 emissions, and exacting standards for the fabric and for building services standards, but without prescribing the technologies to be used.[10]

In Wales, a parallel process is taking place to ensure new build homes are NZC by 2025, but affordable housing will have to achieve this standard no later than 2021.[11] In Scotland, the government has so far focussed on heating, rather than taking a 'fabric first' approach. It is committed to ensuring that, from 2024, new buildings (including homes) must have heating systems which produce zero direct emissions at the point of use and is planning to issue standards for fabric efficiency in new homes in 2021. Northern Ireland is consulting on an energy strategy which will decide its approach to NZC in new build.

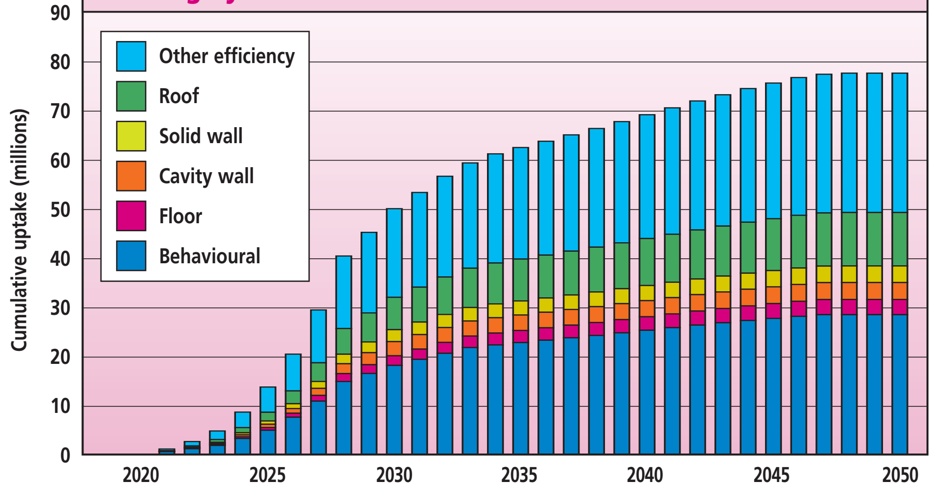
The government has been criticised for delays in introducing a proper standard for new build to reflect the 2020 target, amidst arguments that it is too susceptible to industry pressure to water down the requirements. The prime example was the 2015 decision to drop the 'zero-carbon homes' standard, originally announced in 2006 and due to begin in 2016. As a result, by 2025 some 2.5 million homes will have been built to inadequate standards. These new homes typically fall in EPC band B but will need to be raised to band A by 2050 (an average new home built now emits about 1.5 tonnes of CO_2 per year; this needs to be reduced to 0.3-0.4 tonnes).[12] Using CCC data, the Labour Party estimated that instead of upfront additional costs of £4,800 to achieve NZC in a new home, householders who have bought a recent new build property will face a retrofit cost of £26,300 to bring it up to NZC standards.[13]

Achieving 'net-zero carbon' in the existing stock

Clearly, even more is at stake in upgrading the existing stock than is the case with new build. Inherent constraints in each dwelling's construction have to be overcome and may require phased programmes of work, in which an important objective is ensuring that interim improvements are compatible with the final objective of reaching net zero. In addition, a proportion of stock may not be economically capable of retrofitting to NZC standards, raising questions about its future that must be faced by owners and ultimately may require government intervention in some form.

The Sixth Carbon Budget has an illustrative scenario for the uptake of energy-efficiency measures needed across the UK to achieve the 2030 and 2050 targets (Figure 5.3). It shows the enormous scale of the task. For example, loft insulation will have to increase from 27,000 to 700,000 installations per year by 2025, with a five-fold increase in cavity wall insulation; in total by 2050, 3.4 million homes will require solid wall insulation. More than 85 per cent of the UK's 29 million homes have gas boilers that need to be replaced: Northern

Figure 5.3 **Required uptake of energy-efficiency measures in UK housing by 2050**



Source: Climate Change Committee.

Ireland has a particular problem that 68 per cent of its domestic heating is via oil-fired boilers. Conversion of heating systems will have to occur at pace: by 2030, a total of 5.5 million heat pumps should be installed, of which 2.2 million are in new homes.

Much also depends on behavioural change: people will be expected to operate their heating in completely different ways and they cannot be expected to 'just adapt' without any form of education/training. This is crucial to the success of new technologies but currently is severely lacking.

The CCC is sets out a massive programme of change to be achieved in a very short time.

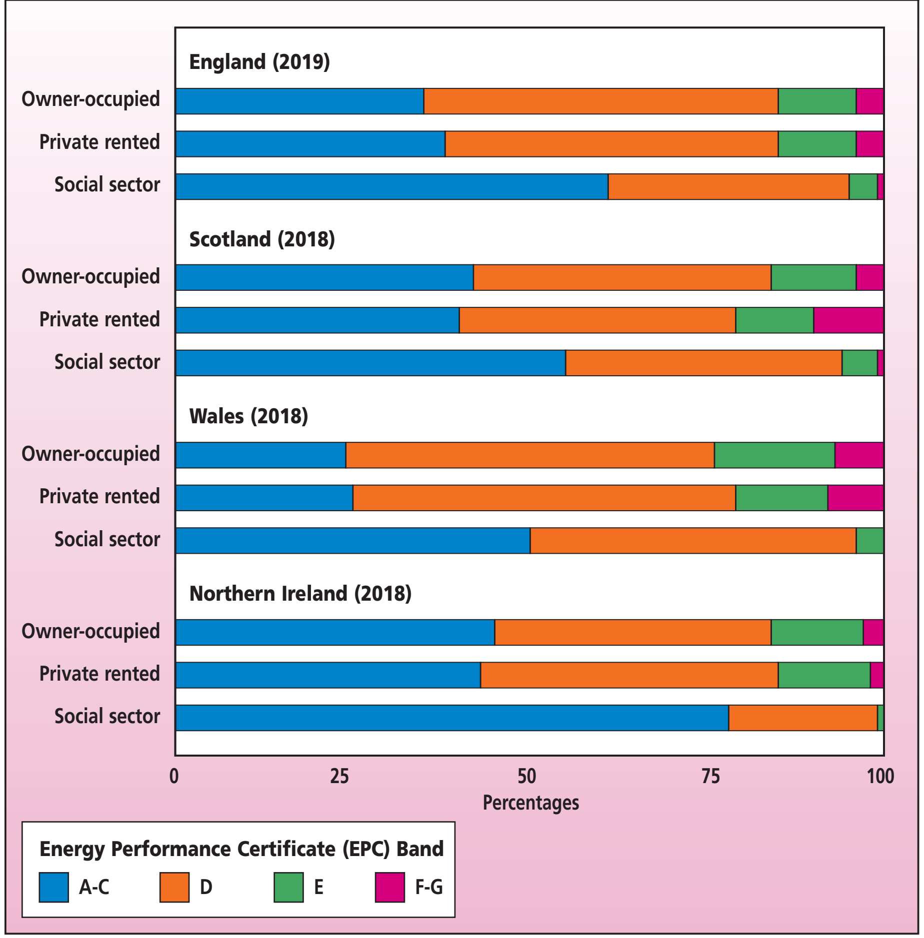
What targets has the government set? So far, as a steppingstone to NZC in 2050, there is an initial target for the fabric performance of the UK's existing stock, which calls for:[14]

- all fuel-poor homes to be upgraded to Energy Performance Certificate (EPC) band C by 2030
- as many homes as possible to be EPC band C by 2035 where practical, cost-effective and affordable.

Currently 19 million UK homes fall below band C, so at least 1.2 million must be retrofitted each year to achieve a 2035 target. The Energy Efficiency Infrastructure Group (EEIG) says this requires annual investment of £5.2 billion, with government funding of £1.7 billion leveraging £3.5 billion from owner-occupiers and landlords.[15]

Figure 5.4 shows how the retrofit task varies considerably according to tenure. Social housing is more energy-efficient than the other tenures: across the UK at least 50 per cent of social homes have EPC ratings of band C or above, and in Northern Ireland the proportion reaches 78 per cent. This is likely to be partly a result of retrofit work and partly because the social stock tends to be newer. In no part of the owner-occupied or private rented sectors does the proportion of

Figure 5.4 **Energy performance bands in the UK by tenure**



Sources: English Housing Survey, dwelling sample; Scottish House Condition Survey; Welsh House Condition Survey 2017-18; NI House Condition Survey 2016.

dwellings reaching band C exceed 50 per cent. In England, 35 and 38 per cent respectively of dwellings in the two sectors reach at least this level, but in Wales this falls to about a quarter in both sectors. Performance is rather better in Scotland (42 and 40 per cent respectively for the two tenures) and in Northern Ireland (45 and 43 per cent).

Will the targets be achieved?

The government has promised to 'implement the Future Home Standard in the shortest possible timeline' but the key test of its ability to meet the CCC's carbon budgets and hence its targets for 2030 and 2050 is whether its measures will tackle emissions from the existing stock.

The government pledged £9.2 billion in its manifesto to improve energy efficiency, beginning in 2020/21, but announced plans only for part of this. In November the prime minister's *Ten Point Plan for a Green Industrial Revolution* said the initiatives could 'help to improve the energy efficiency of around 2.8 million homes, improving around 1.5 million to EPC C standard by 2030'. A £2 billion Green Homes Grant in England offers up to £5,000 per house, rising to £10,000 for low-income households. The chancellor forecast that it would upgrade 650,000 homes, implying an average spend of about £3,000 per house. This fell short of the rate of installation needed to meet the target, but actual progress has been far worse. By February, although there had been 103,000 applications under the scheme in four months, just one-in-five had been approved and work completed in only 2,777.[16] Amidst criticisms that the scheme is a 'shambles', countered by government claims of 'lack of interest from consumers', funding was cut: next year only £320 million will be available, although the £500 million of the original fund directed through local authorities to assist low-income households is still going ahead.

In its 2019 manifesto, the government also promised a ten-year Social Housing Decarbonisation Fund worth £3.6 billion. So far £110 million has been announced as a firm programme in England, with the remainder promised on a phased basis. This would join other, earlier schemes which now have much-reduced impact. ECO (the Energy Company Obligation) is investing about £500 million annually in home-insulation measures and 2.1 million have been completed since it began (across Great Britain) in 2013, but with varying impact in achieving required EPC levels. Northern Ireland's equivalent to ECO is the Sustainable Energy Programme which will spend about £8 million in 2020/21. The Renewable Heat Incentive is spending £147 million across Great Britain in 2020/21 but will end in March 2022; a replacement scheme, the Clean Heat Grant, will offer up to £4,000 for each new installation from April 2022 but the budget for it has not yet been set.

The government is also consulting on stronger regulatory measures. These would require homes in the private rented sector to reach EPC Band C by 2028, 'where practical, cost-effective'; it will also consult on a mandatory requirement on lenders to declare the energy efficiency of homes when they are sold. In the social sector, however, although a number of landlords have committed to the targets to achieve EPC band C, so far there is no regulatory requirement to do so. The Energy White Paper now promises a 'long-term regulatory framework' across the residential sector, with proposals to be issued in 2021.

In 2018, Scotland published a 'route map' to meeting the EPC band C target by 2040, now to be upgraded to a 2030 target. It has various funding programmes of its own, such as Warmer Homes Scotland and area-based schemes run by councils which together have made about 120,000 installations since 2013. It has also pioneered the setting of energy-efficiency standards, not just in the social and private rented sectors but – under consultation – a possible standard for owner-occupied stock from 2024. If this goes ahead, it will require houses to be certified as EPC band C where feasible, when sold or under major renovation. Unlike England, Scotland has a strategy which shows whether the combination of carrots (funding) and sticks (required standards) is delivering the required pace of change. Nevertheless, it is being urged to double public investment in retrofit.[17]

Wales has two small programmes ('Nest' and 'Arbed') but not yet a full delivery programme, although pilot schemes are in hand. Progress in Northern Ireland was inevitably delayed by the suspension of devolved government and it now faces a major catch-up task, especially given its dependence on oil-fired home heating and the aftermath of the scandal surrounding the earlier (non-domestic) Renewable Heat Incentive scheme. The agreement to restore the Northern Ireland Assembly promised targets for reducing carbon emissions but these are not expected until 2021, making the targets harder to meet.

The inevitable conclusion is that neither current programmes, nor those in the pipeline, are sufficient to meet the interim energy performance targets, let alone that of achieving net-zero carbon by 2050. This is not just an issue about the scale of the programmes, but also the approach to running them and their on-off nature (most recently exemplified by the handling of the Green Homes Grant). In conclusion we look at the action needed if the targets are to be met.

The action now required to meet the targets

The government has not been short of advice on how to meet its targets, whether officially from the CCC or from trade bodies and other interested groups. It is fair to say that there is consensus on four key issues.

First, policy certainty is required. In its recent Net Zero Review, the Treasury explicitly recognises the importance of policy certainty and a stable environment to encourage private investment and reduce the costs of achieving NZC.[18] It points to the consistent policy environment for offshore wind as successfully driving investment in that sector. Demands for policy certainty have been echoed in Scotland, Wales and Northern Ireland. For example, the Welsh Government's advisors call on it to 'make a strategic commitment to national residential decarbonisation and stick to it'.[19]

Second, decarbonising the housing sector demands a clear strategy, operating over a long timeframe. Now that the government has set clear and demanding objectives it is vital that it acknowledges that a robust strategy is essential if they are to be delivered. There is plentiful guidance on the form it might take. For example, the Construction Leadership Council (CLC) is consulting on a National Retrofit Strategy, which would focus initially on behavioural change, pilot schemes and training programmes in the building industry, gearing-up to rapid implementation over the period to 2022-30.[20] As well as addressing the questions posed earlier in this chapter, any strategy will need to focus strongly on delivery mechanisms – reskilling the workforce, promoting a supply chain, providing the incentives for the social sector to take the lead.

Third, given the clear necessity for behavioural change, government has a dual task of educating the public to use less energy in their homes, and providing sufficient incentives to lever-in householder investment, both via grant aid and by encouraging banks to create attractive financial packages. Just as massive behavioural change was achieved during the pandemic, a similar shift in attitudes will be required to achieve zero carbon, and it will have to be sustained over the long term. A lesson from experience with the Green Homes Grant is that the public appetite for change exists, but it could quickly disappear if delivery mechanisms fail or if consumer interests are insufficiently protected.

Fourth, current arrangements for delivery and monitoring of programmes, which are diffuse and confusing, must be reviewed. Cross-sector regulatory requirements will need to become more stringent over time (Scotland is pioneering such an approach). There is a strong case for a national delivery agency with clear responsibility for reviewing standards, achieving the targets and monitoring progress, as the CLC's report recommends.

What are the chances of these issues being properly addressed? There are some grounds for optimism. First, there has been a widening of the so-called 'Overton window', the range of generally accepted policy objectives. One indication is the much wider media acceptance of the urgency of the climate change problem, noted earlier. Another is the shift in public opinion: a YouGov poll showed two-thirds of Britons want the country to be a world-leader in tackling climate change.[21] The Treasury's Net Zero Review says that 'reaching net zero is essential for long-term prosperity'. Acceptance of the issue's importance crosses virtually the whole political spectrum (although this does not necessarily translate into acceptance of the measures needed).

Second, the pandemic has not only led to widespread calls for a 'green' recovery but has led many people to question the sustainability of current lifestyles. Successful responses to the pandemic, such as the furlough scheme, getting 'Everyone In' off the streets to tackle rough sleeping and the recent roll-out of the vaccine programme, have shown that governments have capacity to achieve rapid change when it is required.

Finally, the climate itself provides regular reminders of the urgency and severity of the problem, and early indications of how problematic life will become unless we act quickly and effectively. As the Treasury itself acknowledges in its Net Zero Review: 'climate change is an existential threat to humanity'. Housing is a huge part of the problem, and needs to become part of the solution.

Notes and references

1 Rowlatt, J. (2021) *Why 2021 could be turning point for tackling climate change*, BBC News, 1st January (www.bbc.com/news/science-environment-55498657).

2 See www.thesun.co.uk/topic/climate-change-environment/

3 Guertler, P. & Rosenow, J. (2016) *Buildings and the 5th Carbon Budget*. London: Association for the Conservation of Energy.

4 Climate Change Committee (2020) *The Sixth Carbon Budget.* London: CCC, p.5.

5 See www.gov.uk/government/publications/green-home-finance-innovation-fund-competition-successful-bids

6 See www.energy-efficient-mortgage-label.org/

7 Currie & Brown (2019) *The costs and benefits of tighter standards for new buildings*. London: Currie & Brown.

8 See www.gov.scot/publications/heat-buildings-strategy-achieving-net-zero-emissions-scotlands-buildings-consultation/

9 MHCLG (2019) *The Future Homes Standard: Consultation on changes to Part L (conservation of fuel and power) and Part F (ventilation) of the Building Regulations for new dwellings*. London: MHCLG.

10 There is a detailed and accessible explanation of government plans for the FHS by Green Square (see www.greensquare.co.uk/blog/2021/2/1/why-the-future-homes-standardannouncement-is-a-game-changer-for-uk-renewables).

11 Decarbonisation of Homes in Wales Advisory Group (2019) *Better Homes, Better Wales, Better World: Decarbonising existing homes in Wales*. Cardiff: Welsh Government.

12 See https://eciu.net/blog/2020/future-homes-standard-no-time-like-2023

13 As reported in *The Guardian,* 23 January 2021 (see www.theguardian.com/environment/2021/jan/23/buyers-of-brand-new-homes-face-20000-bill-to-make-them-greener).

14 See House of Commons Business, Energy and Industrial Strategy Committee (2019) *Energy efficiency: building towards net zero*. London: HoC, paragraph 13.

15 EEIG (2019) *Making energy efficiency a public and private infrastructure investment priority* (see www.theeeig.co.uk/media/1063/eeig_net-zero_1019.pdf).

16 See www.gov.uk/government/statistics/green-home-grant-vouchers-release-february-2021

17 For example, by the Just Transition Commission (www.gov.scot/groups/just-transition-commission/).

18 HM Treasury (2020) *Net Zero Review: Interim report*. London: HMT.

19 Decarbonisation of Homes in Wales Advisory Group (2019) *op.cit*.

20 See www.constructionleadershipcouncil.co.uk/press_release/national-retrofit-strategy-a-consultative-document/

21 See www.globalwitness.org/en/press-releases/yougov-poll-finds-majority-british-public-want-uk-lead-world-tackling-climate-change/

Part 3 Housing Tenures and Support

Chapter 6

Affordable housing across the UK

John Perry

UK Housing Review 2020

Introduction

Across the UK, government is focussed on delivering new housing, often with specific commitments or targets about the supply of new affordable housing. Yet despite being a big political issue, there are questions about what the statistics on affordable housing tell us: numbers differ between different statistical datasets, definitions of 'affordable' housing are not consistent over time, and there is contention about whether targets have been achieved and which government was better at achieving them. The need for good quality data that are readily understandable and are agreed to present an accurate picture is therefore crucial.

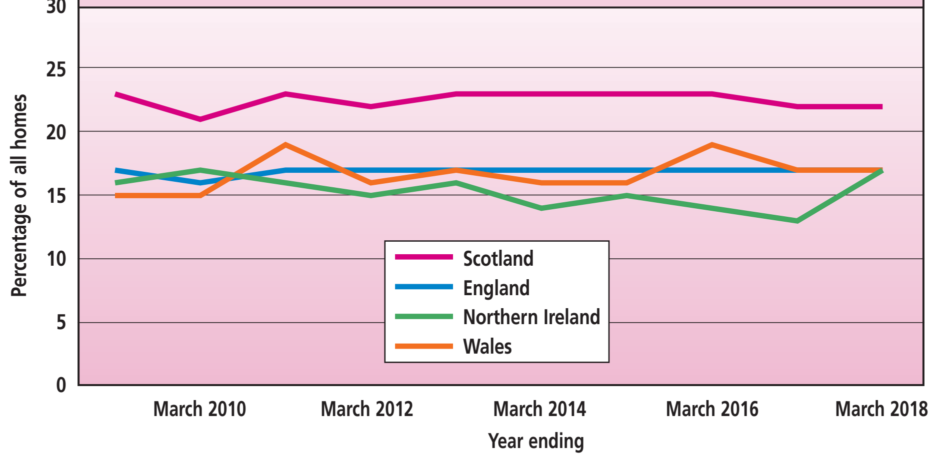
Over the last decade it has been particularly difficult to provide meaningful and comparable statistics on affordable housing across the four UK countries. One reason for this is devolution, and the progressive divergence of policies from those formed in Whitehall. Another is that what is 'affordable' is now decided in each country in different ways and encompasses a wider range of 'products'. The most notable example of this change has been the way that providing homes at Affordable Rent did, for a time, almost completely displace new provision for social rent in England, a path not followed in the other three administrations.

The Office for National Statistics (ONS) has brought together the available comparative statistics across the UK,[1] a task which is of course undertaken annually by the *Review*. This chapter looks at the evidence collated by the ONS and compares it with the *Review's* presentation of similar evidence, at the same time giving a snapshot 'picture' of UK affordable housing and some of the key differences that have emerged between the four countries.

How many homes are there in the social sector?

Defining the social sector conventionally as local authorities, housing associations or private registered providers and the Northern Ireland Housing Executive, the ONS says that the UK social stock in April 2018 was just over five million homes (5,087,000). This is very similar to the *Review's* figure in Compendium Table 17, of 5,038,000. The difference may partly be due to different ways of assessing the tenure split in Northern Ireland and to the ONS's inclusion in their figure of for-profit private providers. The 2018 figure is higher than that for a decade earlier,

Figure 6.1 **Percentage of UK households in the social housing sector by country, 2008-2018**



Source: ONS Comparing affordable housing in the UK, based on DWP Family Resources Survey.

indicating a small growth in the sector of about 210,000 homes. Of the four UK countries, Scotland has the highest proportion of social sector stock (23 per cent) and Northern Ireland the lowest (15 per cent).

Data from a different source, the Family Resources Survey, give a slightly different picture (Figure 6.1) although they confirm that the percentage of households in the social sector has been relatively stable over recent years (note that because it is a household survey, not a count of stock, the results can fluctuate year-on-year in a rather implausible way). As the ONS points out, data for earlier years would show a marked decline: in the late 1970s the proportion of the stock formed by social housing was much higher (33 per cent in Great Britain according to the ONS, 31.5 per cent in the UK in 1976 according to early editions of the *Review*).

How many new affordable homes are being provided?

The *Review's* Compendium Table 19 shows delivery of new homes across the UK by type of landlord: in the year ending April 2018 there were 38,230 completions by social sector landlords. In contrast, the ONS data for affordable supply show

60,300 units delivered across the UK for the same year. The two sets of data illustrate the differences and deficiencies in measurement of affordable housing supply that have been discussed in previous editions of the *Review*. They are considered in detail in a separate investigation of government affordable housing statistics by the Government Statistical Service.[2]

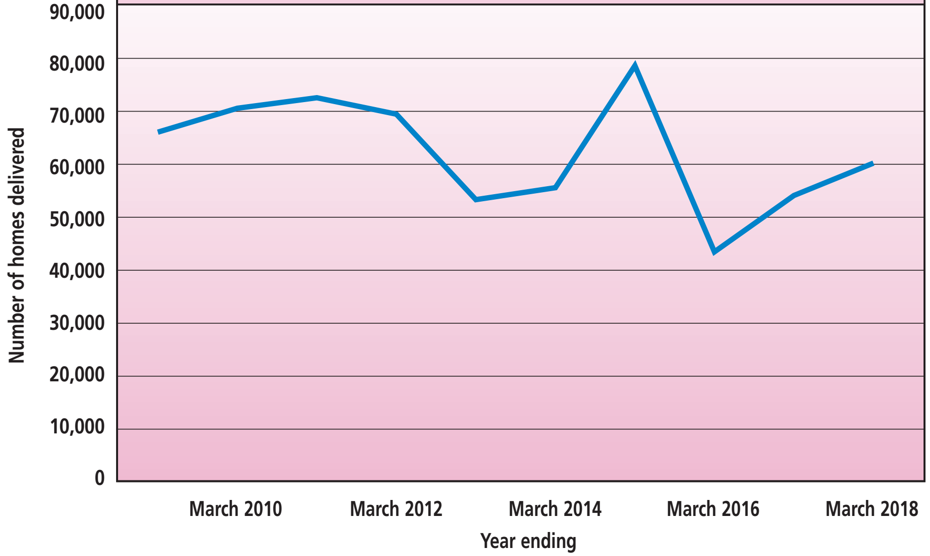
The biggest problem is the way that the MHCLG's quarterly housing starts and completions statistics for England significantly undercount output by local authorities and housing associations. The quarterly figures are based on who is building the houses (e.g. a private builder) rather than who takes ownership of them and lets them (e.g. a local authority via a planning gain agreement). Figures on affordable housing supply are based on the latter, which of course reflects how each completed unit will actually be used.

Another difference is that, across the UK, government agencies count as affordable housing 'completions' those units that have been acquired by the social sector or have been converted from non-social sector property, in addition to newly built homes. While the effect on supply is the same, acquisitions and conversions can be quite a significant proportion of the total: for example, in Northern Ireland in 2018/19, 23 per cent of social housing 'completions' were actually 'off-the-shelf' or other purchases, rather than new construction by the social sector itself.

The *Review* attempts to resolve this deficiency by providing detailed affordable supply figures for each of the four countries in Commentary Chapter 4 and now in the new Compendium Table 20. The ONS has collated the affordable supply figures from the four countries to show trends over a decade (Figure 6.2). As can be seen, there has been considerable variation, in which the strongest factor has been the changes in supply in England (especially after the peak of completions when the Affordable Homes Programme 2011-15 ended in March 2015).

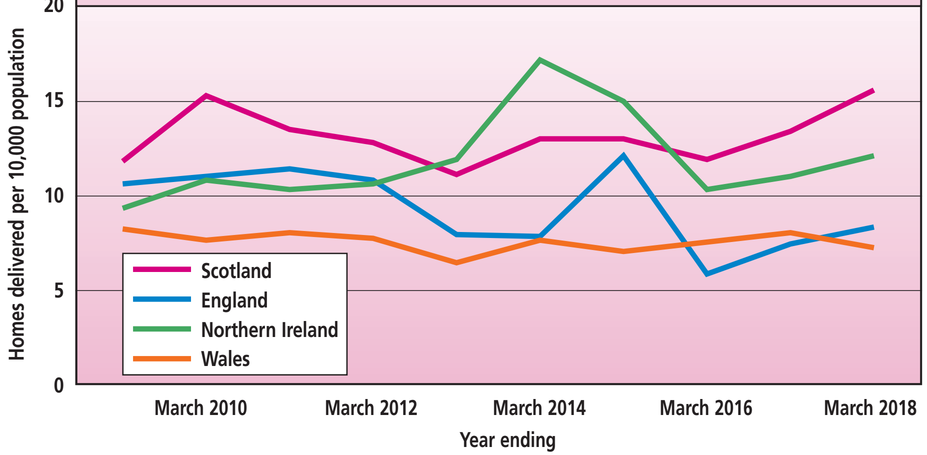
Performance in delivering new affordable homes is relatively stronger in Scotland than in the rest of the UK. As Figure 6.3 shows, Scotland is currently building at almost twice the rate per head of population as England, and Northern Ireland is also performing relatively well.

Figure 6.2 **Total UK affordable housing supply, 2008-2018**



Source: ONS Comparing affordable housing in the UK, based on affordable housing supply statistics from MHCLG, Scottish Government and Welsh Government; Northern Ireland Housing Statistics.

Figure 6.3 **Affordable homes completions per head of population, UK countries, 2008-2018**



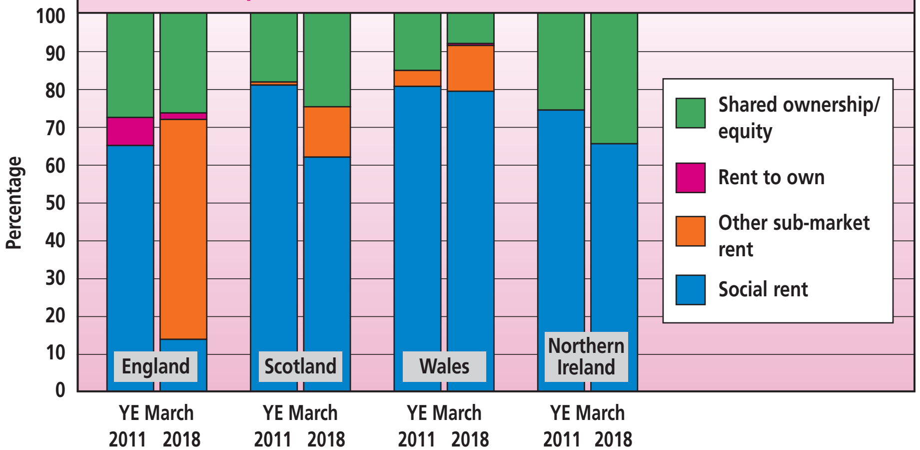
Source: see Figure 6.2.

Make-up of affordable homes programmes

Commentary Chapter 4 in the *Review* reports each year on the output of affordable housing across the UK and the detailed make-up of individual countries' programmes. Broadly speaking, the output of such programmes falls into three categories: traditional social rent, other sub-market rent (Affordable Rent in England, mid-market rent in Scotland, intermediate rent in Wales) and shared ownership. In addition, rent to buy or rent to own schemes have sometimes been promoted. Help to Buy, which exists in different forms in England, Scotland and Wales, is generally not considered to be affordable housing and is not included in the corresponding statistics.

As noted earlier, England has been unique in pursuing Affordable Rent as the *main* output from its housing investment programmes for much of the period since 2011. While Scotland and Wales have developed sub-market rental products, they have retained a strong commitment to social rent. Northern Ireland is unusual in having just two main outputs from its Social Housing Development Programme – social rent and co-ownership housing.

Figure 6.4 **Percentage make-up of affordable homes programmes, UK countries, 2011-2018**



Source: see Figure 1.4.2.
Note: Definitions of 'affordable housing' vary across the four countries; figures for Wales are based on housing association output only.

Figure 6.4 shows how the make-up of affordable homes programmes in the four administrations has changed over the last seven years. The change in England is most dramatic, with social rent playing a much smaller role, largely displaced by the growth of Affordable Rent. Scotland and Northern Ireland have seen much smaller declines in social rent output, while in Wales the proportion of the programme devoted to social rent remains almost the same.

While Figure 6.4 shows the *output* from affordable homes programmes, it says nothing about the *input* of government financial support for those programmes and how this has also changed. The *Review* does this in Commentary Chapter 4, and in 2020 for the first time provided a breakdown of all government support for housing investment in each of the four administrations. Previously this has been done solely for England; the extension of the analysis to the whole of the UK is also unique to the *Review*.

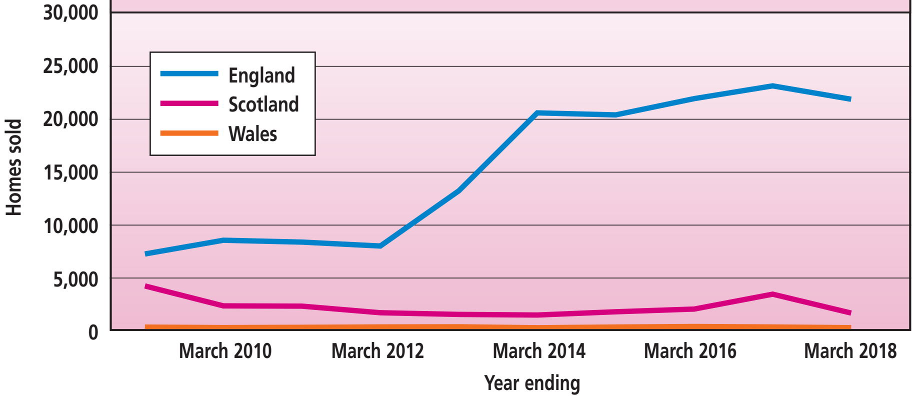
Loss of social sector homes through sales

The *Review* provides annual statistics on right to buy sales across Great Britain, now in Compendium Table 21. It shows that, since the RTB began, over 2.6 million homes have been sold. There is a gap in the available data as regular statistics on Northern Ireland's house sales scheme, their equivalent to RTB which was introduced in 1983, have not been published since 2013 (see below).

ONS puts total sales slightly lower at 'over 2.5 million', which might be due in part to the omission of sales by new town development corporations. It shows the trends in sales over the past decade for the three administrations, reproduced as Figure 6.5.

The chart shows dramatically the increase in RTB sales in England when the scheme was 'reinvigorated' in April 2012 and eligibility was widened and the available discounts raised substantially. In contrast, in both Scotland and Wales, where RTB has now ended, sales were already at low levels. The recent slight peak in Scotland was in anticipation of the scheme being reformed, but it should be noted that the older figures in Compendium Table 21 show that in the early 2000s sales in Scotland were often higher, pro rata to the size of stock, than in England.

Figure 6.5 **Social sector right to buy sales across Great Britain, 2008-2018**



Source: ONS Comparing affordable housing in the UK; see also sources for Compendium Table 21.
Note: Data for Wales between 2008 and 2013 include sales of non-social sector housing owned by local authorities and registered social landlords.

If it were possible to provide full data for Northern Ireland, they would show that the Housing Executive has lost a total of 119,000 units through sales since 1979, to which must be added about 3,000 sales by housing associations.[3] The total is lower than that for Wales and substantially below total sales in Scotland. Recent levels of sales in Northern Ireland have also been fairly modest: available data from the Housing Executive show that its sales under the scheme were running at around 4,000-6,000 annually in the period 1998-2003, but in the three years 2011-2013 averaged only 350 per annum.[4] However, in the absence of a complete time series of annual figures it is impossible to make a more accurate comment on trends.

As the ONS acknowledges, getting a fuller picture of the loss of social sector stock for all reasons, including RTB, is very difficult. The *Review* does this specifically for English *social rented* stock. Over the period since April 2012, a net loss of some 181,000 social rented units has taken place in England, through sales, conversions to Affordable Rent or demolitions (see Commentary Chapter 2). While for local authorities RTB is the biggest reason for loss of social rented stock, for associations it is conversion of properties to lettings at Affordable Rents. Such conversions are, however, now in sharp decline.

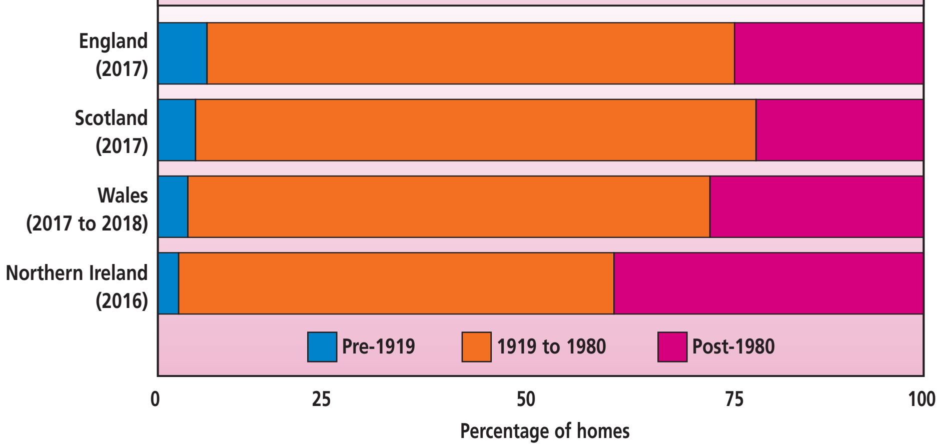
Characteristics of social sector housing

The ONS article collects data on some of the sector's characteristics that are not covered by the *Review*. Figure 6.6 shows the age of the social sector stock in the four countries. Apart from Northern Ireland, around three-quarters dates from before 1980.

Northern Ireland stands out as having a high proportion of relatively new stock. This was because in the decade after 1980, while per capita public expenditure on housing fell in the rest of the UK, it rose sharply in Northern Ireland, partly in recognition of poor housing conditions but also in response to 'The Troubles' and the perceived need for public investment.[5] The Housing Executive completed over 4,000 new homes in 1983, and although output then fell, it continued to produce upwards of 1,000 units annually until the mid-1990s, when housing associations became the preferred delivery vehicles.

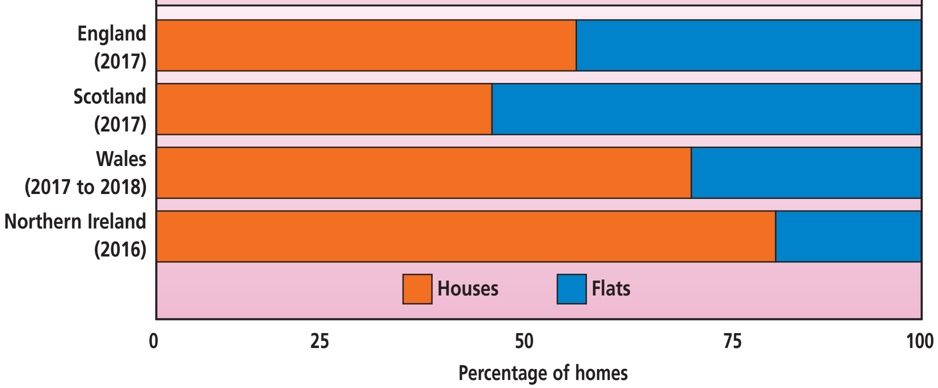
The *Review* includes data on property type by tenure but only at UK level. The ONS has broken the data down to show the variations within the social sector across the four countries (Figure 6.7).

Figure 6.6 **Age of UK social sector stock by country**



Source: House Condition Surveys for England, Scotland, Wales and Northern Ireland.

Figure 6.7 **Proportions of houses and flats in the social sector, UK countries**



Source: As for Figure 6.6.

Homes in the social sector in Wales and Northern Ireland are mostly houses: 69 per cent in Wales and 81 per cent in Northern Ireland. There is a more even mix between flats and houses in England and Scotland: 55 per cent of social sector homes in England are houses, 44 per cent in Scotland (where the traditional form of housing is the tenement, of course, in contrast to most of the rest of the UK).

The quest for better social sector housing data

There are inevitable problems of comparability between the datasets relating to the four administrations, in part because of different definitions and interpretations, and in part because of data being incomplete. One example cited in the ONS report and noted earlier is the lack of regular data on Northern Ireland's equivalent to RTB, the house sales scheme. Another is the absence of consistent data on the use of developer contributions to provide affordable housing, with only Wales now providing collated annual data (there are none for Northern Ireland as it does not yet have developer contributions).

The GSS review of the feasibility of harmonisation points to many of the differences in the available datasets, recognising that in many ways these are an inevitable result of devolution and of diverging policies. It concludes that creating harmonised data using consistent definitions 'does not currently appear feasible' and also that 'there is not a strong user need' for such consistency.[6]

Rather in contrast to this conclusion, the *Review* does of course attempt to provide UK-wide data on as comparable a basis as possible and will continue to do so. It already provides a range of other data on the social housing sector, in addition to those referenced by the ONS, which offer comparisons between the four administrations. For example, the Compendium Tables include data on rents, lettings, energy efficiency and compliance with housing quality standards.

While acknowledging the deficiencies and inconsistencies recorded by the GSS, the *Review's* concerns about the available data on affordable housing are not so much about comparability between countries, but more about the availability of data within countries on a consistent basis over a run of years. For example, there is the continuing gap (noted earlier) between the data on new build construction by English social landlords included in the quarterly construction statistics, and those which are published annually in the affordable housing supply figures. At the same time, MHCLG has improved the coverage and accessibility of its affordable supply data, with new datasets for 2018/19 issued in November 2019.[7]

The GSS promises further work on improving the clarity of the available information. It would be very useful indeed if the GSS's work were to continue to identify gaps and encourage the four administrations to provide complete datasets that comprehensively cover the same topics over a run of years, even if the precise definitions used continue to differ.

Notes and references

1 Office for National Statistics (2019) *Comparing affordable housing in the UK: April 2008 to March 2018*. London: ONS.

2 Government Statistical Service (2019) *Affordable Housing Statistics in the UK: Definitions, Terminology and Feasibility of Harmonisation*. London: GSS.

3 Department for Communities (2018) *Classification of Registered Housing Associations in Northern Ireland: Consultation Two – The Future of the House Sales Schemes*. Belfast: DfC.

4 From the NIHE dataset *Sales of Northern Ireland Housing Executive Dwellings (administrative geographies)*, which covers only 1998-2013.

5 Paris, C. (ed.) (2001) *Housing in Northern Ireland and comparisons with the Republic of Ireland*. Coventry: CIH, figure 3.5.

6 GSS (2019) *op.cit.*, p.31.

7 See www.gov.uk/government/statistics/affordable-housing-supply-in-england-2018-to-2019 and accompanying live tables 1000-1012.

Part 3 Housing Tenures and Support

Chapter 7

How the purpose of social housing has changed and is changing

John Perry and Mark Stephens

UK Housing Review 2018

Commentators on housing policy agree that one event above all others marked – or indeed stained – the housing scene during 2017: the Grenfell Tower fire in Kensington and Chelsea. As well as being a devastating tragedy on an unprecedented scale, it was very quickly seen as symbolic of the neglect of social housing and its residents, leading to calls for it to form a turning point in policy, in official attitudes and in public perceptions of the sector.

Grenfell has been instrumental in sparking five official and non-official reviews of social housing.[1] A promised government green paper will offer a 'fundamental rethink' of the sector, following a series of ministerial meetings with residents' groups and other interested parties. The Labour Party has launched its own review. CIH has a 'Rethinking social housing' project; a group of large housing associations has established a commission on 'the future shape of the sector' and Shelter also has a commission on 'the state of social housing in modern Britain'.

All these are due to report after this edition of the *Review* appears. This chapter aims to contribute to the debate by taking a long view: looking at how the role of social housing has developed over the past 50 years, taking as a benchmark that other memorable tower-block disaster, at Ronan Point in Newham in 1968. Although it caused far fewer deaths than Grenfell (four against 71), it also led to self-examination about the quality and management of social housing and reinforced the move away from high-rise building. We also examine how social housing's role is diverging across the UK and internationally. We look briefly at how this relates to the ways in which social housing is financed and who is living in the sector. Finally, we offer some lessons and pointers towards social housing's future role.

What has been the role of social housing and how has it changed?

What role should social housing play in the wider housing system and in society as a whole? This question has been asked many times over the past 50 years, drawing conflicting responses. Broadly speaking, four different answers have been put forward. Obviously opponents of state intervention may say 'none', but in practice all developed and many developing countries have social housing in some form, with its different roles characterised as:[2]

- *An 'ambulance service':* a role narrowly limited to helping those in most acute need, normally for short periods of time and often with restrictions (e.g. income limits).
- *A 'safety net':* offering broader, long-term assistance to those in lower income groups unable to afford market housing, and to meet other needs such as homelessness.
- *A 'wider affordability' role:* available to a range of income groups (even, possibly, excluding the very poorest), competing with private housing, encouraging higher standards and curbing excessive growth in prices.

These terms are used as the basis for this chapter's analysis and discussion. Underlying all of them is a key question: should tenancies be a 'way station' or a 'destination' for low-income households? For example, proponents of the ambulance service advocate fixed tenancy terms of short duration, whereas for those favouring a wider affordability approach the length of tenancy is up to the tenant. Britain's 'safety net' model is caught between these opposing views, as its history shows.

Council housing's zenith: 1968-1979

Fifty years ago social housing was in many respects approaching its zenith. In 1968 council housebuilding was at its second highest level ever, contributing more than 40 per cent of the record 425,000 homes completed UK-wide, needed in part to deal with the aftermath of slum clearance. By 1971 councils housed almost one in three UK households and would do so until the early 1980s. Owner-occupation was also growing, but fewer than one in five households then rented privately and the number would continue to fall for two decades.

Council housing was in good shape financially. Much of the older stock was debt-free, which could potentially have allowed rents to be reduced or used to subsidise investment in the existing stock or in new building.[3] Two-thirds of working-age social renters were in full-time jobs. Council housing's strong position and broad tenant base could have been a springboard for further expansion to give it the 'wider affordability' role that social housing was developing elsewhere in Northern Europe.

But there were also powerful negative forces. Ronan Point catalysed a debate about the desirability of system building and large, mono-tenure estates. By the late 1960s, councils had started to cut back on new contracts; in 1976 funding was cut in response to demands from the IMF, and council housebuilding began three decades of decline. Already some housing was 'difficult to let' and the term 'sink estates' first came into use.[4] Outside the southern half of England, council housing was often concentrated in areas of economic decline: Glasgow, for example, would demolish over 20,000 council flats in the 1980s and 1990s.[5]

Housing benefit had its origins in the rent rebates and allowances introduced in the early 1970s and had a mixed effect on the social sector: it made it more accessible to people in low-paid jobs but also helped refocus it on lower-income households. Its chaotic introduction – 'the biggest administrative fiasco in the history of the welfare state' according to *The Times*[6] – would presage future difficulties when the scheme grew to a size that none of those promoting it could have foreseen.[7]

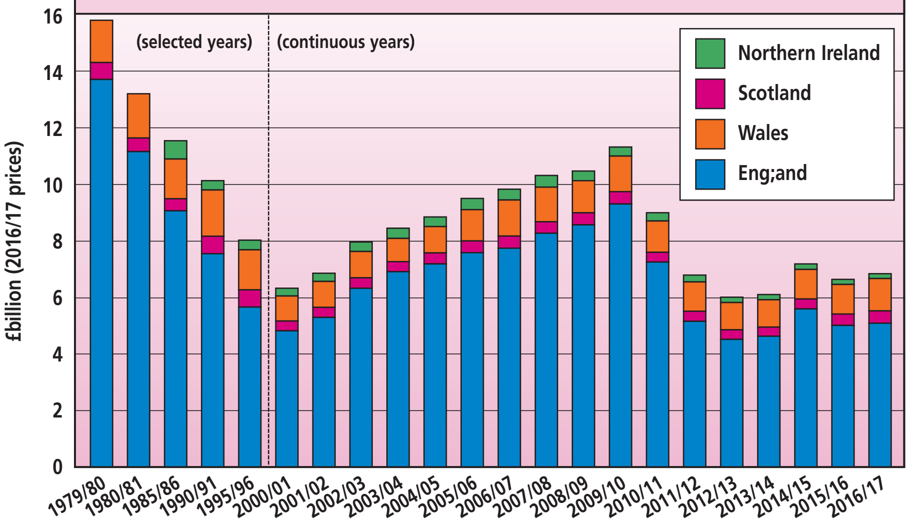
Slum clearance had provided the tenants and often the land for new council housing. While England still had 1.8 million unfit dwellings, a 1968 white paper heralded a radical switch in policy: older housing was now seen as ripe for renovation by a new generation of homeowners. Political recognition of the importance of homeownership had been growing since the 1960s. Labour's 1965 white paper already saw building for owner-occupation as 'normal' while new council housebuilding should be 'exceptional'. Then its comprehensive 1977 green paper cemented the focus on homeownership, with a continued but narrower, 'safety net' role for the social sector.

Do we need council houses? 1979-1997

The green paper's vision never materialised because the 1979 government brought further massive change, although not without prior debate. Peter Walker, a former housing minister, urged the Tories to give away council houses to longstanding tenants, not dissimilar to a 1975 proposal by Frank Field, not then a Labour MP, in his pamphlet *Do we need council houses?* Margaret Thatcher was initially wary of sales, asking 'What will they say on my Wates estates?'[8] But it was her right to buy (RTB) which rapidly fuelled the growth of homeownership at the cost of social housing. In the decade before 1979, councils had added 700,000 homes to their stock; in the decade afterwards, they lost 900,000. RTB was a triple whammy for the sector. It siphoned off into owner-occupation both its better-off tenants and its better quality homes; and little of the £54 billion eventually accumulated from sales (see Compendium Table 60) was used to replace the homes sold. Indeed, a large proportion of receipts simply offset new government housing investment, reducing its cost to the Treasury.

Instead, central government invested in the renovation of mainly owner-occupied older housing then – later – in housing association new build. The fall in social housing investment across Great Britain is shown by the *Review's* historic figures, in today's prices, in Figure 7.1.

Figure 7.1 **Social housing investment in the UK in real terms, 1979-2016**



Source: Compendium Table 58b.
Note: Shows gross public investment at constant (2016/17) prices, excluding private finance; data for Northern Ireland not available for 1979/80-1980/81.

Housing associations' access to private finance, formalised in 1988, was to lead to significant growth: the (then) Housing Corporation's investment reached £1 billion for the first time in 1990/91 and associations built more than 20,000 new homes; in 1995 their building peaked across the UK at almost 39,000 units. The first stock transfer, by Chiltern District Council in 1988, would eventually lead to 1.3 million council dwellings transferring to associations in England. Indeed, arguably stock transfer had as great an effect on housing associations as new build, soon accounting for half the sector's stocks in both England and Scotland.

There is a misconception that the Thatcher governments stopped council housebuilding, but in fact it was not until 1993 that it fell below 5,000 annually across the UK, a figure never again exceeded despite a recent modest revival in England and more especially in Scotland. However, while association finances were liberated, from 1989 council housing had to accept a 'redistributive' subsidy system whose effect was to require authorities with low debt to cross-subsidy those with high debt, saving the government money and providing councils with a further incentive to transfer stock.

Declining stock, the effects of RTB and the changing profile of those allocated new tenancies (especially as the 1977 homelessness legislation, covering England, Wales and Scotland, and by 1989 Northern Ireland, began to take effect) all contributed to a marked change in who lived in social housing. During the 1980s and 1990s it was increasingly directed at solving urgent housing needs. Indeed, some welcomed the 'residualisation' of the sector: Malcolm Rifkind, then Scottish housing minister, said of tenants unwilling to buy their council homes:[9]

> *Indifference to the new climate of success, fecklessness, and sheer hostility to change effectively consigns this group of people to the fate of continuing lower living standards and a poorer quality of life than they could otherwise enjoy.... Any notion that other citizens, as taxpayers, should be called upon to mount rescue operations in these circumstances would not only be economically debilitating, but also morally wrong.*

A decent home for all? 1997-2007

After its early 1990s boom, spending cuts started to reduce housing association output, which reached a new low in 2002-03. From 1997 New Labour focussed its early attention on the poor state of council housing, which had a backlog of almost £20 billion of disrepair. A freshly elected Tony Blair, visiting Southwark's Aylesbury estate, spoke about an 'underclass....cut off from society's mainstream', reviving the 'sink estates' narrative which then began to be used freely in the media.[10] The April 2000 green paper launched a ten-year programme to achieve a new Decent Homes Standard, in part via a mechanism – arm's length management organisations (ALMOs) – which required councils to put housing management outside their direct control (the programme came close to achieving its target, as did similar ones in Scotland and Wales). Labour's regeneration initiatives (New Deal for Communities and, in response to low housing demand in the North and Midlands, the Housing Market Renewal programme) often involved remodelling of social housing estates. Major repairs allowances for council housing, introduced in 2001 in England and 2004 in Wales, meant many councils again received 'positive' housing subsidy from the Treasury.

Investment was accompanied by measures giving tenants more choice and creating a 'social market': retaining below-market rents but using pricing structures to register consumer preferences.[11] 'Rent convergence' aimed to restructure rents so as to better reflect the differences in housing quality offered. The green paper had even considered a fixed-rate housing allowance, never pursued, in which recipients would be able to keep the difference if they found accommodation at rents below the fixed rate. Choice-based lettings aimed to empower new customers. Higher service standards were promoted via performance targets and tests of 'Best Value'. The 2007 Cave Review *Every Tenant Matters* led to more rigorous regulation, more focussed on tenants' needs.

Did these measures rebuild confidence in social housing and lead to greater tenant satisfaction? While there were many local success stories, underlying attitudes remained stubbornly resistant to change. *The Survey of English Housing* in 2008 showed resident satisfaction in social housing still running behind homeownership and even private renting.[12] Nevertheless, social housing waiting lists grew every year from 1998 onwards.

As well as the beginnings of divergence in policy across the UK as devolution took place (see below), this period saw a new bout of reflection on social housing's purpose. There were again calls for it to be abolished.[13] More significantly, the Smith Institute's *Rethinking Social Housing* in 2006 argued that its role should be more restricted and short-term (i.e. become an 'ambulance service'), to move away from the 'dependency culture' which it had allegedly created. Social housing was 'part of the problem, not the solution' creating places 'where welfare is a way of life'; there should be no more offers of 'a tenancy for life'.[14]

In sharp contrast, many tenant-based groups were opposed to what they saw as market-driven reforms such as stock transfer and ALMOs. Tenants successfully campaigned against transfers in Birmingham, Camden, Edinburgh and elsewhere. Defend Council Housing called for councils to be able to retain their housing stock and still receive adequate resources to improve it.

There was also plenty of space in the middle ground. In 2000, the IPPR's *Housing United* argued that the narrow focus of social housing on the poorest should change: it should be rebranded as 'community housing', meet more diverse needs and aim to create mixed communities (i.e. move towards a 'wider affordability' role).[15] Both Demos[16] and JRF[17] produced a range of reports on the potential of mixed communities. Housing associations were encouraged to diversify their output into low-cost homeownership and intermediate and market renting.

The government commissioned an overview of social housing by John Hills, published in 2007. His report *Ends and Means* also saw diversity as the answer, with social housing responding to varied local housing markets, offering new options to tenants and potential tenants, embracing social mobility and positively creating mixed communities in existing estates not just in new ones.[18] In many respects it reflected New Labour approaches to tackling social exclusion, in which a range of government initiatives would combine to reduce inequality and improve life chances for those on low incomes and in deprived neighbourhoods.

Homes for the future? 2007-10

Eventually, the Labour government began to increase investment in new build, because supply was falling well behind demand, leading (for example) to a sharp peak in homelessness across Britain in 2003. Kate Barker's review of housing supply in 2004 had called for more new social housing. Yvette Cooper's 2007 green paper, *Homes for the Future*, set a target of delivering three million new homes by 2020 and led to three years of higher social housing investment.

Unfortunately, of course, it did not anticipate the global financial crisis (GFC) which caused a nosedive in private sector output, although initially put a premium on public sector investment to help reboot the economy. Longstanding moves to reform council housing finance also took final shape – in part with the aim of allowing councils to start housebuilding too – although implementation was delayed by the 2010 election. Output of affordable housing (broadly defined) climbed back to over 50,000 units per year.

Laying the foundations? 2010-2018

The coalition and then Tory governments from 2010 brought a massive shift in focus away from social housing investment, towards support for the private sector. In part, this resulted from the new 'austerity' in the public finances. But the ideas of right-leaning think tanks such as Policy Exchange and Localis were beginning to have a marked impact on policy.[19] Reinvigorating RTB, selling off higher-value stock, ending long-term tenancies, moving rents towards market levels, making higher-income tenants 'pay-to-stay' in their homes, culling waiting lists and reducing homelessness entitlements were all measures advocated by them and variously taken up by government. Although not actually calling for the abolition of a sector which they blamed for 'reducing employment and increasing poverty' among tenants, these reports sought to reduce its role to an 'ambulance service'.

Background circumstances required a more cautious approach by government, however. Its 2011 policy paper in England, *Laying the foundations*, was a mixed bag. Since the early 2000s, owner-occupation had been falling continuously and the PRS growing. The housing market was slow to recover from the GFC. Housing need had increased among working as well as non-working households, as incomes failed to keep pace with housing costs. As well as an unprecedented range of initiatives to boost the private market, the government wanted to sustain affordable housing output while cutting its cost: hence, from 2011, it introduced Affordable Rents with lower grant levels. This created policy confusion: was social housing now aimed at higher-income groups who could afford higher rents, or still at low-income tenants supported by housing benefit? But how was the latter compatible with parallel cuts in benefits via 'welfare reform'?

Labour had brought the financial arrangements for the two parts of the social sector closer together, but while 'self-financing' of council housing in England from 2012 initially did the same, councils were soon losing both stock and income as the settlement was eroded and RTB was 'reinvigorated'. Housing associations were increasingly focussed on building to let at higher rents or for sale, leading to tension about how to meet growing homelessness needs. Funding to keep stock at the Decent Homes Standard was halted, leading many to feel that, after a short renaissance, council housing was beginning another decline. The Grenfell Tower fire was seen by many as revealing a growing disregard for its residents. Even as a 'safety net', social housing was shown to have gaping holes.

How has policy diverged across the UK following devolution?

Arguably, while England questioned the 'safety net' function of social housing, within the devolved administrations it was retained and, in the case of Scotland, strengthened. How did this come about? On the eve of devolution in 1999 there was an identifiable 'British' housing system: state subsidies for council housing, slum clearance up until the 1970s, scaling back of social housing investment after the 1976 IMF crisis, pioneering homelessness legislation, the hiking of social rents and increased dependency on housing benefit and, of course, the right to buy. The first decade or so of devolution brought little divergence in social housing policy.

However, particularly with the coalition and Conservative governments in Westminster, differences began to grow. In Scotland the social rented sector is now being protected by the ending of RTB, with Wales to follow suit. While in England local authorities can discharge their homelessness responsibilities via private tenancies, Scotland continues to use social housing. Scotland has abolished the 'priority need' category, extending full assistance to all households that are unintentionally homeless. England's Affordable Rent model has not been replicated and only England has introduced fixed-term social tenancies.

In each of the devolved administrations, housing investment has been increased. The Scottish Government aims to deliver 50,000 affordable housing units in the current parliament (35,000 of them social rented). Local authorities enjoy more borrowing freedom than in the rest of the UK, and indeed provided more social rented homes in the last five years than all the English authorities (see Commentary Chapter 4 in each edition of the *Review*). The Welsh Government has a target of 20,000 affordable homes over the same period and Northern Ireland one of over 13,000. Such targets make recent promises of additional affordable homes in England seem modest.

But this is not the whole of the story. Historically, social security is devolved in Northern Ireland, but the 'parity principle' meant that policies were almost identical. The 'bedroom tax' has been delayed there, but not stopped. The Scottish Government gained some new social security powers but these are limited: it has mitigated the effects of the bedroom tax and can alter the housing cost element in universal credit, but is constrained legally as well as financially. In practice, then, Westminster retains a grip on a crucial policy lever – how the benefits system supports people's housing costs.

What role does social housing have in other countries?

Social rented housing is found primarily in advanced economies where governments supported the sector to meet housing shortages, to improve housing quality (often related to slum clearance) and to supply affordable housing to urban populations. Different vehicles were chosen. English-speaking countries tended to use public sector landlords, such as public housing authorities in the US and Australia. Municipal housing companies were chosen in Sweden, while the Netherlands and Denmark used housing associations as the principal providers. Elsewhere a mixture of providers emerged, notably in Germany where the mix included municipal housing companies, trade union and company housing, housing associations and private landlords.

Many other European countries have contributory welfare systems whose basic allowances are more generous than the UK's, often partly covering housing costs. Unlike the UK's huge housing benefit scheme, any separate housing support tends to be much more limited. The UK system reinforces social housing as a 'safety net', whereas less-compartmentalised social security systems facilitate its 'wider affordability' role.

Also of significance are the differing relationships between tenures. For example Sweden claims (rather disingenuously) that it has no 'social' housing because governments pursue a policy of tenure neutrality, with similar subsidy arrangements across tenures. Rents are negotiated annually by representatives of tenants and landlords and in principle a unified rental sector exists. Sweden's wider affordability model therefore effectively caps market rents by aligning them with municipal rents.

While Germany's use of private landlords to provide social housing is not unique, the scale is unusual. This complicates tenure definitions: formally, once subsidised loans are repaid, such housing returns to the market sector. Because it has not been reproduced on sufficient scale, this accounts for the 'melting away' of social housing in Germany. However, the sector is wider than legally defined: for example, municipal landlords still perform a social role even if much of their housing is no longer defined as such because subsidised loans have been repaid.

In Australia and in particular the US, social housing is an 'ambulance service' to meet urgent needs. In part this arises from its small scale and consequently severe rationing. In the US, this includes maximum income limits which can lead to exclusion should incomes rise during a tenancy; the focus on needs, such as disabilities, that are more acute than low income alone, and the exclusion or eviction of households if someone is convicted of a felony. Housing goes to those whose behaviour merits help.

Social housing has a 'wider affordability' role in most European countries where the sector has been of significant size, and does so also in Hong Kong. In France, Germany, the Netherlands and Sweden, social renting has been available to a much broader range of households than in the English-speaking countries. Commentators often suggest that the UK should replicate these examples so as to avoid the stigmatisation and potential 'area affects' of social housing, whereby tenants appear to experience disadvantage on a scale that cannot be explained by their socio-economic situation alone.

However, there is a flip-side to the wider affordability role, if social housing excludes the poorest households because they are more likely to default on rent or require more intensive management. In France, the government gave extra subsidies to landlords to provide what is termed 'very social housing'. In Sweden, especially in high demand areas, municipal landlords systematically exclude the poorest households. Requirements for minimum incomes, a record of non-default, and the exclusion of applicants who have complex needs or who have attracted complaints mean that responsibility for the most vulnerable falls to social services departments via a 'secondary' market in housing leased from private landlords.

Nonetheless, the trend across Europe is towards the social sector playing more of a safety net role. This results from rising levels of poverty and inequality, as well as new demands from refugee populations. Sweden maintains its resistance to 'social' housing, and reacted to the European Commission's edict that the municipal sector should not compete unfairly by requiring that it become more 'business-like' without special support. The Netherlands introduced an income limit for housing association tenants, also in response to European Commission competition rules. In France, a quarter of housing allocations outside the poorest areas must now be reserved for the most vulnerable applicants.

How is social housing paid for and how has that changed?

Social housing, whether existing housing or new homes, is largely paid for from a combination of tenants' rents and (if available) government subsidy. The latter may be 'bricks and mortar' subsidy via capital grants or revenue support, or indirect, personal subsidy via housing benefit or universal credit. Underlying the trends in tenure and policy changes just described there have been major shifts in the way social housing is subsidised, and in its share of subsidy compared with other tenures.

The growth in council housing up to the mid-1970s was backed by central government supporting around two-thirds of the loan charges for new build, while council tenants in older stock largely met the full cost of their housing. Supply-side subsidies made up more than 80 per cent of total subsidy. Labour's introduction of Housing Investment Programmes (HIPs) in 1978 gave a mechanism for controlling supply-side subsidy to local authorities, and in the 1980s it was both cut and increasingly switched towards homeownership via renovation grants. The Housing Corporation became the means to direct capital grant to housing associations, avoiding local authorities. But, after 1988, housing benefit increasingly 'took the strain' as rents bore the brunt of the higher cost of private finance.

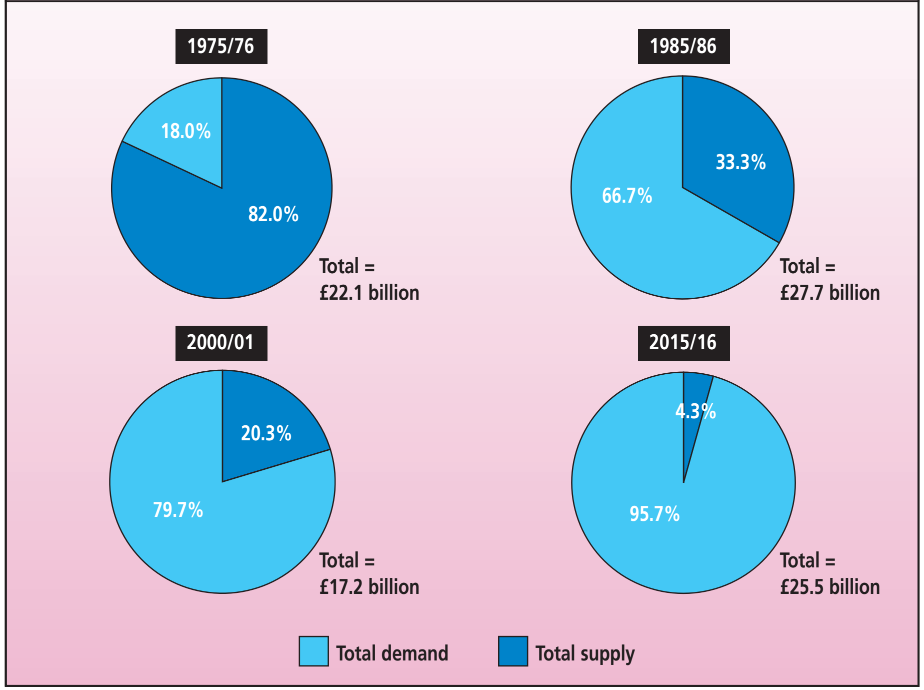
Thus, over the 25 years from 1975-2000, a radical shift took place (see Figure 7.2): supply-side subsidy fell from over 80 per cent of the total to only 20 per cent, with almost 80 per cent now being demand-side. The total level of subsidies also fell by 42 per cent in real terms. The largest falls were in bricks and mortar subsidies and eventually the phasing out of mortgage interest relief. Housing benefit became by far the biggest component of housing expenditure.[20]

In the new century, this broad division initially stayed the same, although bricks and mortar subsidy switched away from private-sector renovation grants towards renovation of council housing. Supply-side subsidy had fallen dramatically to only four per cent of the total by 2015/16. However, from 2011 onwards, there have been further and frequent changes, leaving a more confused picture:

- housing association grants were cut and rents increased to subsidise new development
- this put further pressure on benefit expenditure, itself restrained by a tightening range of welfare reform measures
- 'rent convergence' was halted and ad hoc changes in rents policy ensued, although more stability in social sector rents is promised from 2020
- council housing began to make surpluses, enabling the government to make it 'self-financing' in 2012 with no expectation of future revenue subsidy
- massive support for the private market came to overshadow support for the social sector, most not included in the comparisons just made.

These sometimes contradictory changes are symptomatic of the fragmenting of policy-making on housing: while MHCLG leads on many issues (e.g. social sector rents), the Treasury is the protagonist of a range of high-cost private market interventions and the DWP has cut back welfare entitlements in ways that directly impinge on housing policy. Neither 2011's *Laying the Foundations* nor the 2017 housing white paper have successfully brought these together into a coherent policy.

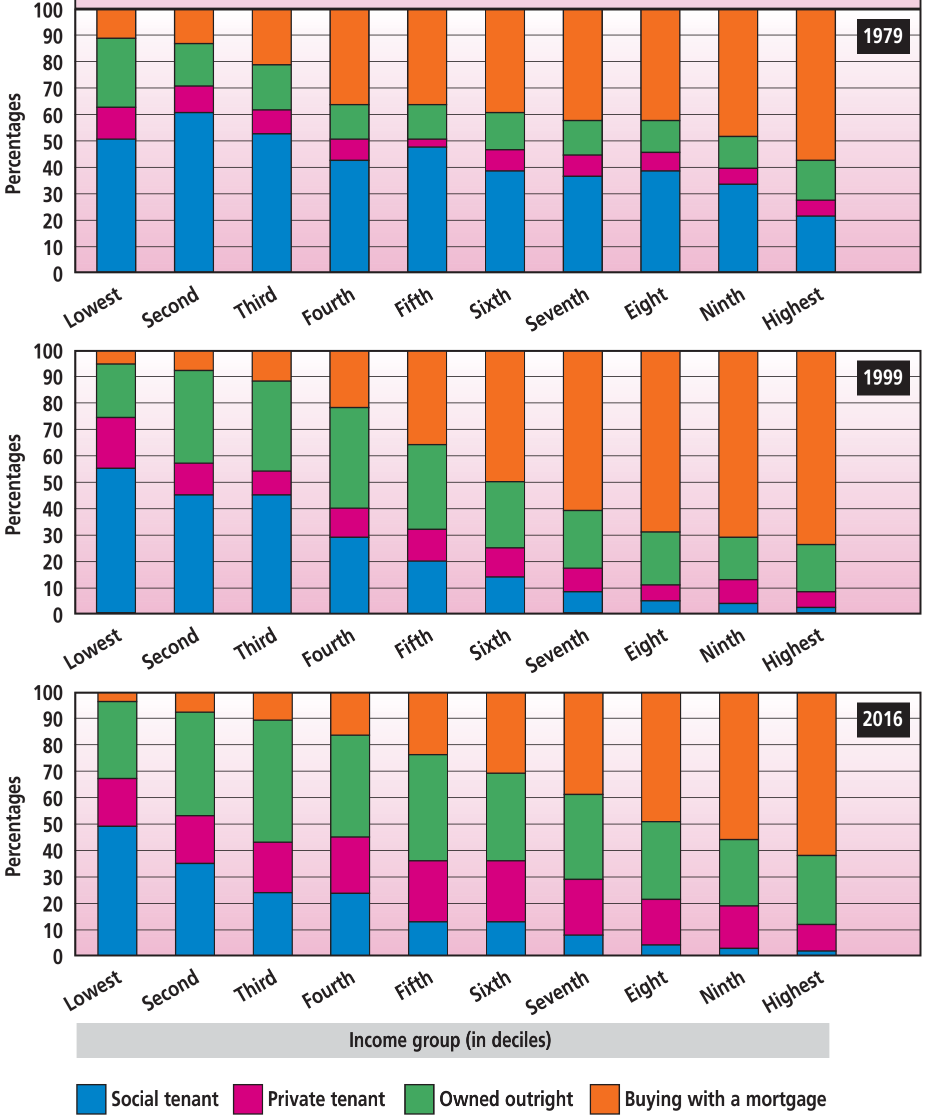
Figure 7.2 **Change in balance of government housing subsidies in England, 1975-2016**



Sources: Hills, Ends and Means; UK Housing Review and calculations by Steve Wilcox.
Note: Expenditure totals have been updated to constant (2016/17) prices. Figures cover all tenures, but exclude homeowner tax reliefs.

Who is social housing for and how has this changed?

Figure 7.3 **Tenure and household income distribution, 1979, 1999 and 2016**



Source: 1979 – Hills, Ends and Means; 1999 & 2016 – Compendium Table 38 and earlier versions.

As John Hills pointed out in *Ends and Means*, in 1979 tenants were more evenly spread over income groups, so that even 20 per cent of the highest-earning group lived in social rented housing. By the 1990s tenants were overwhelmingly concentrated in the bottom half of income groups (see Figure 7.3).[21] While the concentration of low-income groups in social housing has continued, private renting is also now more significant for these groups, while buying with a mortgage has in the last decade become almost impossible for the lowest 20 per cent of earners.

This is not a simplistic story of social tenants mainly being unemployed or of pensionable age, however. The proportion of working households in the social sector has risen since 2010/11, and is now only a little below what it was in 1981, after which many working tenants left the sector via right to buy. Working-age tenants on low wages are now found in both social housing and the PRS.

However, such statistics are only a small part of a much wider picture about the social and economic context for social housing, and the way it relates to issues such as income inequality, job insecurity, generational differences in tenure and housing costs, the financialisation of housing, and many more that cannot be covered here but which the *Review* has discussed in past editions.

What are the lessons for social housing's future role?

Secretary of state Sajid Javid has promised that the government's current review will 'kick off a nationwide conversation on social housing – what works and what doesn't work, what has gone right and what has gone wrong'. Arguably, learning from the past is vital to this process, hence this chapter's focus. We conclude with nine lessons, conscious that there are many more that could be drawn.

First, what we build now will last a very long time. The recent review of *50 Years of the English Housing Survey* points out that 97 per cent of houses that existed in 1967 are still in use (albeit in a different pattern of tenure). Or looked at another way, 60 per cent of stock we now have is more than 50 years old. Mistakes in housing policy tend to be long-lasting. The first post-war housing minister, Nye Bevan, said: 'We shall be judged for a year or two by the *number* of houses we build. We shall be judged in ten years' time by the *type* of houses we build'.[22]

Second, policy invariably focuses on new housebuilding, yet it only makes a small contribution to solving current needs. Policies towards the existing stock and its management are also crucial. For example, the Thatcher governments successfully prioritised investment in older private housing, but neglected the social stock, leading to a huge repairs backlog. The current government prioritises stimulating the private market, but has done little to tackle insecurity for tenants in the PRS.

Third, successful policy initiatives may have unforeseen consequences. For example, right to buy was, in its own terms, a huge success, but it led to the fragmented ownership of estates, often later by absentee landlords. This produced ongoing management problems, in particular in blocks of flats as the Grenfell fire showed. Homelessness legislation and the RTB together drove a drastic change in the income profile of social tenants. The Decent Homes Standard was a success, but at the expense of investment in new building. Welfare reform has produced modest savings for the DWP, but has had enormous and unplanned consequences for those managing social housing and for its residents.

Fourth, housing provides plentiful examples of the importance of policy being evidence-based. Missing from this review are many policy initiatives which had little or no impact, littered over the 50 years: rents to mortgages, right to repair, pay-to-stay, and many more. Often they were ideas imposed from outside, with no reference to tenants' real wishes or social landlords' priorities. Cogent analyses of the sector such as the 1977 green paper or the 2007 Hills review are rarely followed through.

Fifth, successful policy change often comes from below – stock transfer and the recent growth of local housing companies are examples. Buy to let has transformed the PRS, making it an alternative but less secure alternative to the social sector for those who can no longer afford to buy. Government could respond more quickly to such emerging trends, learning from and guiding the better ones.

Sixth, trends that appear inevitable may not be. Fifty years ago homeownership was seen as becoming the norm, but it has now been in decline for over a decade. The near-disappearance of the PRS seemed inevitable, but the proportion it houses has now returned to levels not seen since 1969. Fifty years ago, housing was beginning to slide down the political priority list but, while it stayed in the doldrums for decades ('the dog that didn't bark' at various elections), it is now perhaps second in priority only to the NHS. Politicians often seem uncertain how to deal with such unforeseen changes.

Seventh, questions of access, affordability and security, all relating to the existing stock, have come to the fore. The physical condition and even safety of the stock has been highlighted by Grenfell. In the post-Grenfell meetings held by the then housing minister, Alok Sharma, tenants raised these perennial issues. One reason why RTB was so popular is that ownership gave residents more control over such uncertainties. As one housing association chief executive commented:[23]

> *Encouraged by government policy, we have reduced stability through offering only short-term tenancies; stretched low-income families through above-inflation rent increases; eliminated choice through 'one offer' only policies for those in the greatest need; stopped 'going the extra mile' for customers in the name of efficiency.*

Indeed, as Lord Kerslake pertinently asked during the House of Lords debate on fixed-term tenancies, '[do] we see council properties as genuine homes or ... a temporary welfare provision'?[24]

Eighth, a positive outcome from Grenfell has been to help dent stereotypical views of social tenants as typically unemployed. It has also led to some belated recognition that many social housing estates have strong communities and their tenants have huge capacity to organise – as evidenced by the fire's survivors. Social landlords may be well aware of this through their work with tenants (who are, after all, the main income source for their business) but the fire showed the need to reinvigorate tenant involvement; how to do so is a key question for the sector-led inquiries taking place.

Finally, much of the case for social housing lies in providers' capacities to combine efficiency with the ability to provide better products and services than the market, at lower prices, and to contribute more effectively to meeting long-term social and political objectives. This is only partly a question of resources, it is also a question of political and societal attitudes towards the tenure and its tenants, of fostering a unique resource which continues to house almost one-fifth of the population while largely paying for itself, rather than seeing it as a drag on public resources and a political liability, ripe for short-term policy changes. Whether social housing is to be a stronger and more ample 'safety net' or in future to have a 'wider affordability' role, neither will be achieved without renewed commitment. It would be a tribute to the Grenfell Tower victims and survivors if such an attitudinal change were now to begin.

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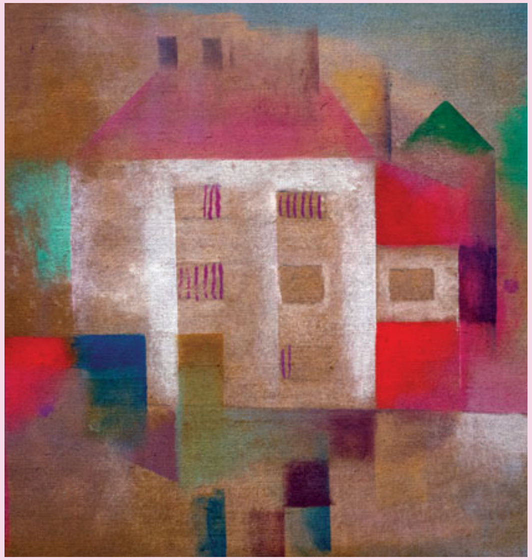
Part 3 Housing Tenures and Support



Chapter 8

Developments in the private rented sector

Tom Simcock

UK Housing Review 2022

Introduction

The private rented sector (PRS) is an important tenure for millions of households across the UK. The sector has diversified from the types of households 'traditionally' associated with the PRS (i.e. mobile young professionals, students and migrants) to providing housing to a wide variety of households including those with low incomes, families with children and people over 65.

Before the Covid-19 pandemic, private renters were already struggling with issues such as insecurity of tenure, affordability and poor property conditions. The last two years have shone a light on the importance of an affordable, safe and secure home, with this increasing the pressure for further reform across the UK. There have been announcements and legislative changes aimed at addressing these challenges. Scotland introduced the Private Residential Tenancy (PRT) in 2017 to improve security of tenure for renters. In Wales, the Renting Homes (Wales) Act 2016 made changes to security of tenure and contract terms (and came into force in December 2022). In 2019, the UK government announced that it intended to abolish section 21 of the Housing Act 1988 to end 'no fault' evictions in England (now included in the Renters (Reform) Bill 2023).

It seems that uncertainty will continue as the world adapts to the Covid-19 pandemic, and new reforms are either implemented or put forward for consultation. There are many challenges facing the sector, including improving the energy efficiency of properties, addressing the increasing difficulties in affordability and tackling the health inequalities arising from poor quality housing.

This chapter examines key developments over the last year, the continued impact of the pandemic, and the diverging policy and regulatory landscape across the UK. Specifically, the chapter explores the following key themes:

- The Covid-19 pandemic and the PRS.
- Developments in the sector including landlord activity and attitudes, the build to rent sector and the growth of short-term letting.
- The changing regulatory landscape across the UK.

Note that aspects of the PRS are also discussed in Commentary Chapter 3 of each edition of the *Review*.

The Covid-19 pandemic and private renting

Clearly the last two years have presented significant challenges: lockdowns and requirements or advice to work from home have further demonstrated the importance of safe and secure housing for our health and wellbeing. The economic consequences of the pandemic threatened many renters' ability to retain their tenancies. Nearly a quarter of private renters saw their income reduced at some point during the pandemic.[1] In Scotland, a higher proportion of private renters (45 per cent) had experienced a fall in income at the start of the pandemic in comparison to other tenures.[2]

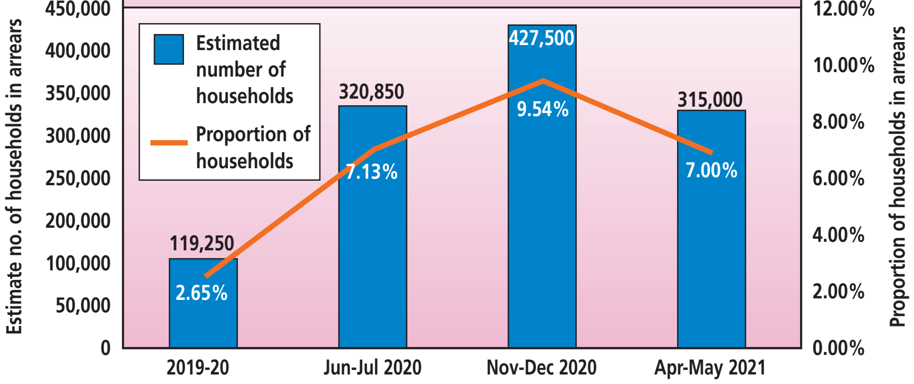
Governments across the UK responded by introducing temporary measures designed to prevent tenants from losing their homes. These included the furlough scheme, the evictions moratoria, changes to notice periods for evictions, the re-aligning of local housing allowance (LHA) to the 30th percentile of local rents and introducing a £20 uplift to universal credit.

However, in 2021 these measures were wound down and withdrawn. The government removed the uplift to universal credit and reverted to the austerity-era policy of freezing LHA rates. Criticism of these changes came from across the sector, with 100 organisations issuing a public letter to the prime minister in September urging the government not to proceed with the cuts.[3] The National Residential Landlords Association argued that the cut to universal credit would 'worsen the rent arrears crisis'.[4]

The negative impact of the pandemic continued throughout 2021. Signs of economic recovery occurred alongside government measures to alleviate the suffering of households, including loan/grant schemes for renters to pay-down rent arrears due to pandemic loss of income.

As Figure 8.1 demonstrates, in England seven per cent of renters were in arrears in April-May 2021, down from nine per cent in November-December 2020. Seven per cent equates to approximately 315,000 households across the sector and is still well above pre-pandemic levels of rent arrears. Furthermore, there are concerns that more households could experience arrears, with nearly one-in-ten renters reporting that they were very or fairly likely to fall behind with their rent payments in the next three months.[5]

Figure 8.1 **Proportion of private renting households in England in rent arrears 2019-2021**



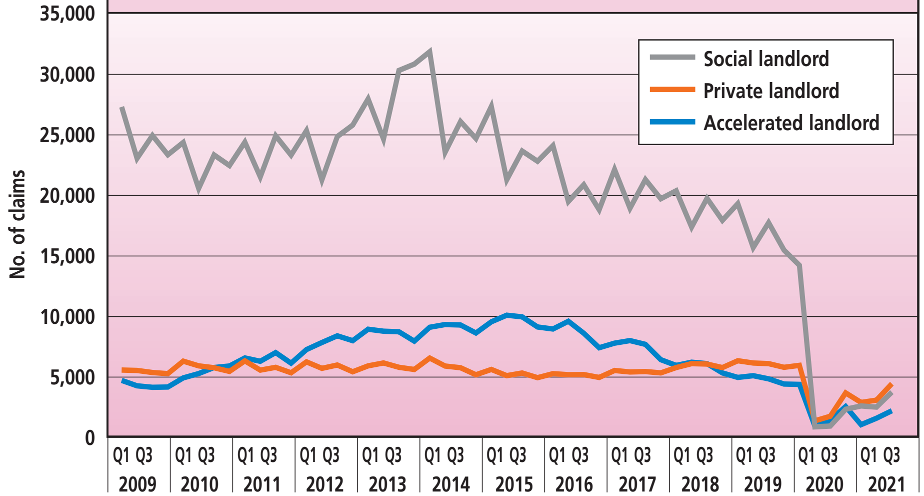
Source: Author analysis of DLUHC English Housing Survey: Household Resilience Study, Wave 3.
Note: Estimated number of households is based on an estimated 4.5 million PRS households.

In the 2021 *UK Housing Review* Autumn Briefing Paper, we noted that, while the government had introduced furlough, increased LHA rates and imposed an evictions moratorium, these were not by themselves enough to prevent rent arrears arising as a result of the pandemic. The government in England has now taken some steps to address the rent arrears crisis with the launch of an additional £65 million Homelessness Prevention Grant. This is to be administered on a case-by-case basis by local authorities, to support lower-income households with rent arrears. While it is a step in the right direction, there are challenges, such as ensuring renters know how to access this support. The funding also may not be enough, given that the Housing, Communities and Local Government Select Committee have previously estimated that £200-300 million would be needed to fund a Covid-19 financial package for the PRS.[6]

Across the other countries of the UK, there are limited data on the proportion of rent arrears in the PRS, a symptom of issues with pan-UK data on the sector. However, a recent study in Scotland found that, at the end of 2021, three per cent of private renters reported that they were currently in arrears.[7] Somewhat earlier in the pandemic, the Scottish and Welsh Governments had introduced financial support for private renters. However, this was provided through loan schemes, and the BBC found in Wales that only 41 applicants had qualified for support in the first seven months.[8] The effectiveness of the schemes was hampered by the creditworthiness and affordability requirements imposed on applicants. The schemes were criticised across the sector, and to ensure the support was more widely accessible, the loans were transformed into grants schemes. Discretionary housing payment budgets were also increased across Great Britain, with some of this intended to support private renters. However, it was left to local authority discretion on how to allocate this funding and it required the applicant to be in receipt of universal credit/housing benefit.

As described in the 2021 edition of the *Review*, during the pandemic governments across the UK introduced a raft of changes to eviction procedures in efforts to limit homelessness. These have included extended notice periods and pre-action protocols. As Figure 8.2 shows, the measures helped to limit the number of landlord possessions, supporting private renters to remain in their homes during the pandemic. However, there are now emerging data that show that evictions in the PRS are starting to pick up again (as they are in the social sector, too).

Figure 8.2 **Landlord possession claims in England and Wales, 2009-2021**



Source: Author analysis of MOJ Mortgage and Landlord Possession Statistics (2021).

Figure 8.2 illustrates the trend in landlord possessions since 2009 in England and Wales on a quarterly basis. While the latest data are affected by Covid-19 restrictions and the restart of court proceedings, several trends are evident. In 2020 evictions dropped off significantly; however, they are now starting to increase rapidly, albeit not to the same levels as pre-pandemic. Social landlords are making considerably fewer claims, and now the majority come from private landlords and accelerated (or section 21) claims, which are also overwhelmingly made by private landlords. Without further action it is likely that pre-Covid PRS repossession claim levels will be reached in 2022.

Sector developments

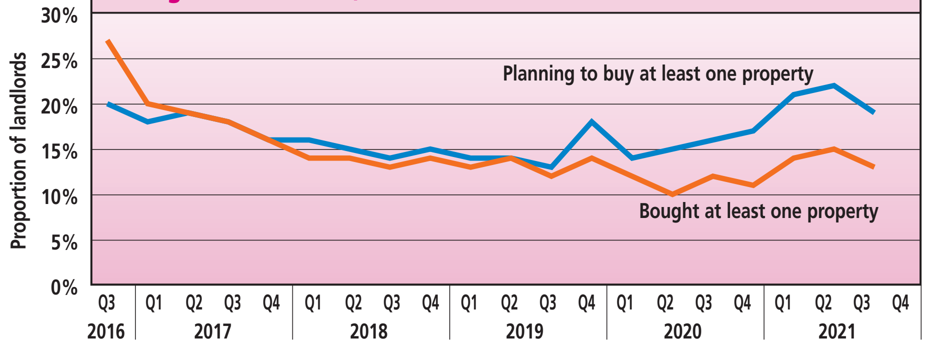
Over the last year there have been several developments across the sector, including changes in attitudes by landlords, continued investment by build to rent developers, and changes in the short-term rental market. These are now examined in turn.

Changes in landlord investor attitudes

During the Covid-19 pandemic, the UK government introduced changes to the stamp duty land tax paid in England and Northern Ireland. From July 2020 to September 2021, home buyers did not have to pay stamp duty on the first £500,000 of a purchase price. Similar measures were introduced in Scotland and Wales relating to their devolved property transaction taxes. However, these concessions did not apply for landlords in Wales, where no changes were made to higher rates of land transaction tax. In England, Northern Ireland, and Scotland, while landlords and second homeowners still had to pay the surcharge for second properties, this still meant a tax cut for property purchases. The likely impact of this policy on landlord attitudes to portfolio changes can be identified in long-term attitude tracking from the National Residential Landlords Association (NRLA).

As Figure 8.3 demonstrates, there was a steady weakening in landlord appetite to invest in additional properties – measured through either their plans to buy or reporting the purchase of additional properties – until the start of the pandemic. However, from mid-2020 onwards this trend reversed, with increasing proportions of landlords reporting either their intention to purchase an additional property or

Figure 8.3 **Landlord attitudes to the purchase of additional properties in England and Wales, 2016-2021**



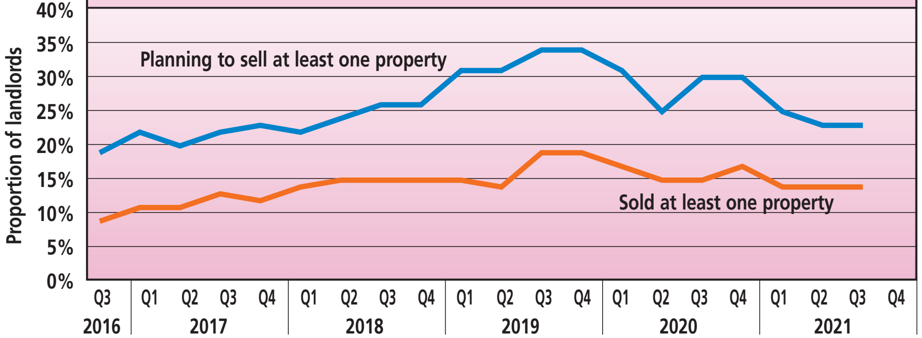
Source: Author analysis of NRLA quarterly survey data (2016-21).
Note: For Q1 2020, the proportion of landlords who have bought at least one property is based on author estimation from NRLA narrative reporting.

the actual purchase of at least one extra property. Since this change occurred around the time of the stamp duty concession, it is likely to have been a factor affecting attitudes, especially due to the downturn in Q3 2021 once the tax cut was removed in England.

There are also important trends emerging in landlord attitudes to the sale of rental properties (Figure 8.4). Since 2016, the proportion of private landlords who reported that they planned to sell at least one property had increased, from just under one-in-five landlords in 2016 to over one-in-three landlords by the end of 2019. However, since the end of 2020 and throughout 2021 this has decreased and now under a quarter of landlords report they plan to sell property in the next 12 months.

A major area of contention for private landlords is the significant tax changes that governments have introduced since 2015 to stem investment from small-scale buy to let landlords. These measures include the additional three per cent levy on stamp duty land tax (and devolved equivalents) for additional properties, the restriction of finance cost relief for individual private landlords (reducing tax relief for mortgage costs to a basic rate), and the replacement of the fixed, ten per cent wear-and-tear allowance with the 'replacement of domestic items relief' (RDIR).

Figure 8.4 **Landlord attitudes to the sale of properties in England and Wales, 2016-2021**



Source: Author analysis of NRLA quarterly survey data (2016-21).
Note: For Q1 2020, the proportion of landlords who have sold at least one property is based on author estimation from NRLA narrative reporting.

While the majority of these tax changes are unlikely to seriously affect existing landlords with one or two properties, the effect is likely to be more severe for landlords with larger portfolios.[9] Previous research showed that 70 per cent of landlords surveyed thought these tax changes would reduce their profitability, with 62 per cent reporting that it would fall by at least 20 per cent.[10] Given these tax changes and the potential 'threat' of future legislation and regulatory changes, it is not surprising that some landlords are seeking to cash in on their portfolios, especially given that more than half of landlords are aged 55 years or older, so may be looking to run down their assets in any case.[11]

However, there are some disparities between the proportion of landlords who report planning to sell properties and the proportion of landlords who report they have actually sold them. Analysis reveals an average difference of ten percentage points between those planning to sell and their reported behaviour 12 months later.[12] Despite the differences between planned and reported sales, there has been an increasing proportion of private landlords who reported selling property, and this appears to have levelled off over the latter stages of 2021.[13]

Further research is needed to understand the trajectories of this stock. For example, does this housing remain within the tenure after being bought by other landlords, or is the stock moving into homeownership? If so, is this making it more difficult for other households to find a property to rent? A reduction in supply of privately rented properties could hamper economic recovery by limiting labour mobility and could also create pressures in already 'hot' local markets, making it more difficult for lower-income renting households to find somewhere affordable to live.

Reasons for growth in the build to rent sector

The build to rent (BtR) sector is attempting to meet the increased demand for rental properties and is marketed as part of the solution to the challenges faced by the PRS generally (i.e. affordability, professionalism and property quality). From a very low base the UK build to rent sector has gone from strength to strength over the last decade, and in 2021 hit a record of £4.1 billion in investment.[14] This is an increase of 14 per cent since 2020 and is despite the pandemic, illustrating the demand for the sector from both investors and renters.

BtR has primarily focussed on city-centre developments for young professionals and offering improved tenancy conditions and amenities such as longer-term tenancies and allowing pets. However, Savills report that the sector is now diversifying into different segments such as family and suburban developments and is supporting an increase in housing supply across the country.[15]

The total size of the BtR sector is 205,500 units, which is still very small in comparison to the broader PRS. However, there are 99,500 units in the pipeline for future development, showing potential growth in the sector in the near future (both figures relate to 2020).[16] Growth outside London is likely to continue: Savills report that in the year to Q3 2021, more than twice as many BtR developments started construction outside London than within the capital. Further, these developments outside London are larger, delivering an average of 260 units compared to 205 units in London. The BtR is shifting towards cities and towns in other parts of England, with the pipeline for future BtR developments increasing by 22 per cent in such areas.

While there has been growth across the UK, the sector still represents a minority of the overall PRS. BtR is currently a fairly niche market, and it caters more for younger households and middle-income earners. Sizeable, continued investment would be needed to increase the size of BtR in the PRS, add competition and provide more choice for consumers.

Short-term rental

The loss of properties from the long-term rented sector (LTR) to short-term rental (STR) activity is a key issue facing policymakers, neighbourhoods, and renters seeking affordable properties. STR has always been part of the housing sector, however platforms such as Airbnb have driven the rapid growth in this activity, as Alasdair Rae reports in Chapter 9 (see also Figure 8.5).

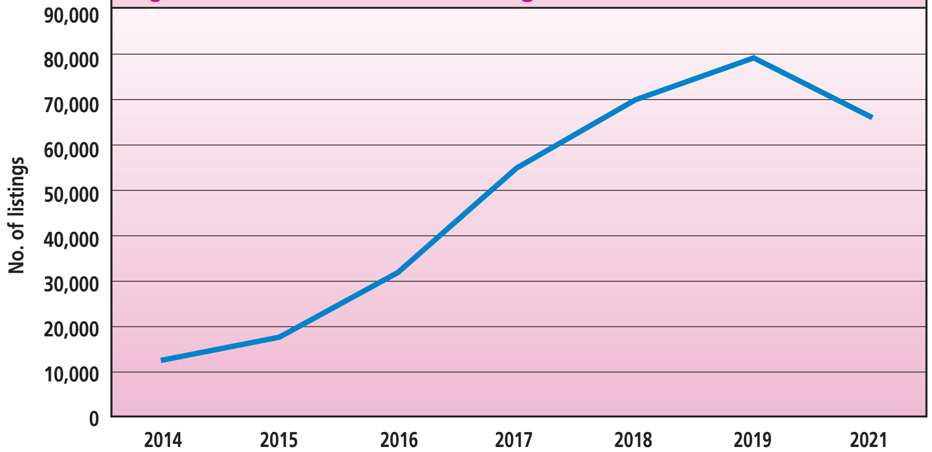
In 2017/18, the English Housing Survey reported that around 2.8 million households casually let part of or their entire home on platforms such as Airbnb, with 640,000 households doing so in London alone. Since the global financial crisis and technological advances, new platforms are disrupting activities through the 'sharing' and 'gig' economies. Key examples include Deliveroo, Uber and Airbnb. Airbnb has been one of the most prominent platforms enabling millions of people worldwide to advertise their home and has become a staple part of the tourism industry.[17]

The growth of these platforms and the use of housing stock in this way has raised concerns about their impact on housing markets, and specifically the private rented sector. This is especially pertinent in the UK. Here the tax changes in the PRS help to make STR financially more attractive to private landlords, as the tax changes to mortgage cost relief do not apply to STRs. Furthermore, property owners prefer the STR sector over LTRs due to the prospect of higher rents with little capital investment.[18] In 2017, seven per cent of landlords reported they had already converted some properties to STRs.[19]

In London, short-term letting activity was prohibited without planning permission until the introduction of the Deregulation Act 2015. This enables homeowners to let their property as a STR in the capital for up to 90 nights per year without the need for planning permission. In London there was substantial growth in activity, with a 571 per cent growth in entire home listings on Airbnb from 2014 to 2019.[20]

This growth is linked with an increase in the proportion of the STR sector operated by 'professional hosts' with multiple lettings: the research found that 12 per cent of hosts had more than one property, and these hosts operated nearly half (44 per cent) of all entire-property listings in London. There is also evidence that some landlords and agents are bypassing planning permission and Airbnb restrictions to let properties for more than 90 nights per year.[21]

Figure 8.5 **Total number of listings on Airbnb, 2014-2021**



Source: Author analysis of InsideAirbnb.com data.

The Covid-19 pandemic, however, has put a dent in STR activity through travel restrictions and public health measures (such as lockdowns). In response, landlords were reportedly switching from STRs to LTRs, with a substantial increase in rental property availability.[22] This does not seem to be a short-term effect, with the number of Airbnb listings in December 2021 down 16 per cent in London compared to April 2019.

It will be important to monitor the changes in this activity and the impact on LTRs as the pandemic evolves. If travel and tourism increase considerably then demand for STRs could rise. With looming policy changes across the UK, this may nudge some landlords, especially those with properties in sought-after locations, to (re)enter the STR sector. The reduction of supply of properties could price households out of neighbourhoods and cause further affordability pressures.

Changing landscape of renting across the UK

The regulatory landscape of the private rented sectors across the UK is in a state of flux. While the demographics of renters has evolved and become much more mixed, there is a core demographic of younger households. These demographic shifts alongside a more substantial PRS represent a significant political challenge for governments and political parties across the UK.

In UK elections over the last decade including the 2019 election, younger people were more likely to vote Labour, while the Conservatives had a much stronger lead in the over 65s. At the 2019 election, while the majority of homeowners were likely to vote Conservative, 46 per cent of private renters voted Labour. At the 2017 election Shelter identified that Labour had a 23-point lead over the Conservatives among private tenants and found that in marginal seats in England the number of private renters correlated with a fall in the Conservative vote.[23] This 'renter vote power' makes the concerns of renters politically important, especially as the sector now accounts for approximately one-fifth of all households.

In England, in 2019, the then prime minister Theresa May announced the end of 'unfair evictions' with the abolition of section 21 'no-fault' notices. These notices allow private landlords to serve notice for repossession of the property without any reason being needed. They provide a two-month notice period before the landlord can make a claim to the court to end the tenancy and gain repossession.

The landlord's ability to serve notice without citing a reason, combined with the short notice period, are major causes of insecurity for private renters and provokes fear and anxiety. Insecurity of tenure along with other elements of renting can make it difficult for private renters to settle down and create a 'home', with research findings showing that insecure private renting can have negative effects on health and psychological well-being.[24]

Therefore, efforts to rebalance the power dynamic between landlord and tenant and improve security of tenure should be welcomed. There are concerns from landlord groups in England that the removal of section 21 notices would be detrimental to the sector without broader reform to section 8 grounds for possession and to court procedures. Section 8 grounds allow the landlord to regain possession if a certain condition is met, such as rent arrears or anti-social behaviour. Some grounds are mandatory, meaning that the court must provide the landlord with possession, while other grounds are discretionary. Landlord groups are lobbying for these section 8 grounds for eviction to be streamlined and to make it easier for renters to lose their home.

Despite the announcement of the abolition of section 21 in 2019, there has been little policy movement. (N.B. In reading this and the following paragraph, account should be taken of the Renters (Reform) Bill published in 2023). Plans for a Renters' Reform Bill were announced in the Queen's Speech in 2019 and re-confirmed in the 2021 Queen's Speech. A white paper leading to a Renters' Reform Bill was planned.

The forthcoming white paper in England will include abolition of section 21 notices and reform to section 8 grounds, new mandatory minimum standards for lettings (based on an updated Decent Homes Standard), a 'strong' right to redress for tenants and strengthened enforcement in the sector. It will 'explore' the introduction of a national landlord register. Deposit passports or 'lifetime' deposits are also believed to be under consideration, addressing the problem of renters having to find a deposit when moving property while waiting for their previous one to be returned. The passport proposal would solve this by allowing renters to transfer their current deposit to their new tenancy.

The whole sector will be waiting in anticipation to see how far these proposals go to improve renting for millions of households across England. In the meantime, Wales is also facing significant rental reforms with the Renting Homes (Wales) Act 2016 and the Renting Homes (Wales) (Amendment) Act 2021 coming into force in December 2022. This new legislation is a major change for the PRS in Wales and introduces new rights for tenants and responsibilities for landlords.

In particular, the 2021 Act increases security of tenure for renters, extending the minimum notice period under section 173 (similar to the section 21 notice) to six months rather than two months; preventing landlords from serving a section 173 notice until six months after the start of the tenancy; and delaying a further section 173 notice until six months after the expiry of a previous one. This ensures that the tenant has a minimum of 12 months' security of tenure from the start and provides more time for a renter to find a new letting if they are not at fault.

Northern Ireland is also considering some limited reforms to its PRS. A Private Tenancies Bill is at the first stage of the legislative process and will place restrictions on the frequency of rent increases, extend notice periods and introduce new regulations on standards of electrical safety and energy efficiency. However, the bill may not receive royal assent before the end of the current Northern Ireland Assembly term (N.B. The legislation took effect from April 2023).

In contrast, Scotland has already experienced substantial rental reforms that have enhanced security of tenure through the Private Housing (Tenancies) (Scotland) Act 2016. This introduced the Private Residential Tenancy (PRT) and also allows local authorities to apply to designate 'rent pressure zones' where rents can be restricted to a certain level. In addition, separate legislation increased the purview of the First-tier Tribunal for Scotland (Housing and Property Chamber). The Scottish Government has now published for consultation a draft Rented Sector Strategy, informed by discussion with tenants. Broader research projects will feed into a final strategy (N.B. The process was ongoing in 2023).

A core component of the Scottish strategy is putting the voices and experiences of renters at the centre of reforms, including the potential development of a long-term tenant panel and the funding of new research. A project funded by the Joseph Rowntree Foundation in partnership with the Scottish Government seeks to understand the challenges faced by low-income renters and to co-produce solutions. Emergent findings highlight issues of affordability, professionalism, access to the sector and property conditions and repairs.[25]

The draft strategy addresses these issues and also seeks to improve renters' experiences, for example making their house a 'home', having the flexibility to decorate, have pets and enjoy greater security of tenure. It seeks to improve standards and introduce a new housing regulator for the PRS. One key commitment, that will be contentious to some, is to improve upon the current rent pressure zones and introduce a system of national rent controls by 2025. However, the design and detail of how rent controls will work are still to be determined. It will be important to see how this policy develops, what the impacts are on renters, landlords and the broader sector, and what lessons it provides for the rest of the UK.

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Chapter 9

The rapid rise of short-term lets and the implications for the housing market

Alasdair Rae

UK Housing Review 2019

Introduction

The recent rapid rise in the number of short-term lets across the UK, principally through Airbnb, has brought into sharp focus the question of how and at what level policymakers should deal with the issue. It is simultaneously a global phenomenon and a local problem, with cities across the world now home to a set of what might be thought of as 'globalhoods'; ultra-desirable neighbourhoods ready to be consumed by visitors from across the globe at an ever-increasing rate.[1] This, in turn, has given rise to something of a backlash from locals and activists, along with a growing academic literature on the topic and a range of new housing policies in cities worldwide.

Of course, short-term property rentals have always been part of the housing market and their existence is not a new development. Yet there certainly *is* something new going on in the sector. The rapid growth in recent years of platforms like Airbnb and Booking.com has significantly lowered barriers to entry, created a truly globalised market, and facilitated its expansion to such an extent that serious questions are now being asked about the impact of short-term lets on the housing market. In particular, the question of the potential 'misappropriation of housing stock' is a pressing one.[2] This chapter examines the rise of short-term lets in relation to their growth, geography and impact.

The chapter initially considers the growth of short-term lets in terms of numbers. It does this first by looking internationally and then within the UK, with a focus on Edinburgh and the Isle of Skye. It is clear from this that the last five years have seen substantial growth in the sector and that residents in many cities have begun to fight back. Related to this has been the emergence of new policies on short-term lets in cities such as Amsterdam, Berlin and London. One aspect that is often overlooked, however, is the impact of the growth of short-term lets in non-urban settings, and for this the Isle of Skye provides a useful case study.

Following an initial look at the data, the question of volume is then considered, to provide some context. This gives rise to two principal questions. First, might this growth in short-term lets really have a significant impact on the housing market? And, related to this, might it therefore merit more serious policy attention? The answers put forward here are 'possibly' and 'probably'. The 'effects on the market' aspect must be treated with caution, however, so this paper also touches upon some methodological pitfalls that are to be avoided if we want to really understand what is going on. One important element of this is the temporal issue and the extent to which an individual property may only be available for short periods (e.g. 90 days or fewer each year) or whether it has effectively been removed from the dwelling stock by being available for short-term letting for most of the year. Put simply, when we see a short-term let listed online, we *cannot* always infer from this that it has been removed from the private rented sector, owing to the fact that a significant proportion of listings are for private rooms and the fact that most are not available year-round.

Another important question is whether we can trust the available data relating to the rise of short-term lets, given the reliance to date on web-scraped data sourced from Airbnb in particular. This question was effectively put to bed when Airbnb released their own data on the growth of short-term rentals in the UK and it was a very close match for data already circulating from activist sites such as Inside Airbnb. Anecdotal evidence, plus qualitative data on the impacts of short-term lets, reinforce the fact that this rapid growth is a topic worthy of attention.

Yet we remain in a state of policy limbo: caught out by the rapid rise of short-term lets, but not yet fully abreast of its implications for the housing market, nor clear on what form of regulation or legislation (if any) is the most appropriate response. To put it simply, the rise of short-term lets is often not particularly well understood, yet at the same time there is a growing belief that intervention is needed in the most popular locations.

The view put forward in this chapter is that the rise of short-term lets brings many positives yet, left unregulated, there is a real risk of substantial and prolonged loss of neighbourhood amenity, misappropriation of housing stock, and displacement of long-term residents as a result.

The rise of short-term lets: some data

When examining the growth of short-term lets, it is useful to focus on the rise of Airbnb, since they are the largest global platform in this area, with over five million listings in 81,000 cities, across more than 190 countries (N.B. data from 2018).[3]

Potential guests can book accommodation in minutes, in their own language on international versions of Airbnb.com, such as Airbnb.cn (in China) or Airbnb.de (in Germany).

From humble origins in 2007 when the founders offered accommodation to conference guests after all local hotels sold out, to the official launch of Airbnb in 2008, the company has grown rapidly and has been valued at around $40 billion. Indeed, ahead of its highly anticipated initial public offering in 2019-20 some estimates have even seen it valued at up to $65 billion. This valuation is higher than any single hotel group in existence.

Airbnb's economic might, combined with its rapid growth, is significant, particularly when set in the context of austerity-depleted local authorities across the United Kingdom, who often lack the resources to respond to sudden shocks, and can rarely do so quickly even in times of plenty. Even if it is the case that the rise of short-term lets brings significant benefits to local economies, the pertinent question here is how any negative externalities associated with them can be dealt with. This was the topic of a recent study by Nieuwland and van Melik, who concluded that the sector 'is reverting back to a more traditional and commercial form of tourism, in which financial motivations prevail over social aspects of living with/as a local'.[4] But first it is useful to consider the numbers in order to get a sense of scale.

Research by Colliers International in 2018 looked at the growth in overnight Airbnb stays in Amsterdam, Berlin, London, Madrid and Paris and reported 45 per cent growth in London between 2016 and 2017 for a total of 6.7 million overnight stays in 2017 (the highest in Europe). Paris, at 6.5 million, was next, followed by Berlin (2.2 million), Madrid (2.2 million) and Amsterdam (2.1 million). All five of these cities saw growth of 25 per cent or more between 2016 and 2017 but Madrid led the way at 67 per cent.[5] This level of growth is fairly typical of the most popular tourist destinations across the world, from Sydney to New York to Santiago.

We must be careful at this point, however. These figures relate to the growth of whole properties or rooms being listed for short-term rental on Airbnb and we do not know if they are new to the short-term rental market. The data do not necessarily, in themselves, directly say anything about the growth of the short-term rental sector. They also do not allow us to make inferences on the mix of short-term let types, whether they are full properties, shared properties or shared rooms; all of which are advertised on Airbnb (though it should be noted that shared rooms account for a tiny fraction of all rentals). An important additional point is the temporal question: not all properties are available for more than 90 days a year, for example. Many are, but many are not.

Having said this, by triangulating between data on the rise of short-term lets, growing disquiet from locals in neighbourhoods across the world, and the introduction of policies aimed at combating excessive numbers, it is reasonable to suggest that things are now out of kilter in some locations. Yet it is likely also the case that in many other locations the phenomenon is both sustainable and beneficial. A geographically nuanced approach to understanding the phenomenon is therefore essential.

Thus, across the world there have been a series of influential reports on the extent to which the rise of Airbnb has disrupted private housing markets. For example, a recent report found that both Sydney and Melbourne were home to over 20,000 Airbnb listings and another found more than 67,000 listings in New York City.[6] Both suggested more stringent regulation was required.

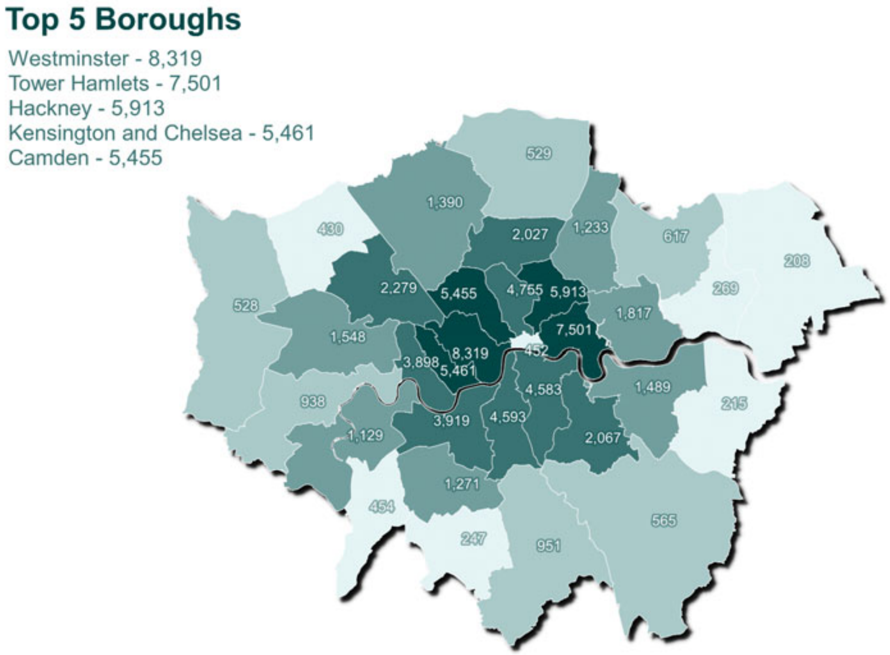
Airbnb's own *UK Insights* report from 2017 said that there were 64,000 listings in Greater London alone.[7] It stated that the total economic activity generated by hosts and guests across the capital was £1.62 billion and that, on average, hosts earned £3,000 in the year from July 2016. The total number of guests during this period was 2.1 million and the total income earned by all hosts was £342 million.

The 2018 data from Inside Airbnb suggest there are over 77,000 listings in Greater London, broken down as follows:

- 42,758 entire homes (55.4 per cent of the total);
- 33,594 private rooms (43.6 per cent); and
- 744 shared rooms (1.0 per cent).

These figures can seem small when we compare them to the total number of households in Greater London, which stood at just over three million in 2018. Yet it is the geography of Airbnb here that is perhaps most revealing (see Figure 9.1) and provides a more meaningful context. If we take Tower Hamlets, in Inner London, we can see that there were just over 7,500 listings in December 2018, compared to a resident population of 308,000 and a household count of 126,000. Individual listings on Airbnb, or any other short-term letting website, do not equate to individual households, and of course not all listings are for entire properties. Nonetheless, if these 7,500 listings were all located in different properties, it could indicate Airbnb's presence in almost six per cent of all households in Tower Hamlets. Data for all London Boroughs are provided in Table 9.1.

Figure 9.1 **Count of Airbnb listings by London Borough, December 2018**



Source: Inside Airbnb.

Table 9.1 **Airbnb listings in London Boroughs, December 2018**

London Borough	Total Airbnb listings (Dec 2018)	Entire home/ apt	%	Private room	%	Shared room	%	Population 2017	Rate
Westminster	8,328	6,164	74.0	2,116	25.4	48	0.6	244,796	29.4
Tower Hamlets	7,513	3,693	49.2	3,746	49.9	74	1.0	307,964	41.0
Hackney	5,907	3,152	53.4	2,726	46.1	29	0.5	275,929	46.7
Kensington and Chelsea	5,466	4,439	81.2	990	18.1	37	0.7	155,741	28.5
Camden	5,461	3,540	64.8	1,809	33.1	112	2.1	253,361	46.4
Islington	4,759	2,975	62.5	1,757	36.9	27	0.6	235,000	49.4
Lambeth	4,603	2,326	50.5	2,239	48.6	38	0.8	324,048	70.4
Southwark	4,592	2,409	52.5	2,115	46.1	68	1.5	314,232	68.4
Wandsworth	3,916	2,156	55.1	1,750	44.7	10	0.3	323,257	82.5
Hammersmith and Fulham	3,895	2,373	60.9	1,499	38.5	23	0.6	182,998	47.0
Brent	2,273	1,022	45.0	1,221	53.7	30	1.3	329,102	144.8
Lewisham	2,065	871	42.2	1,166	56.5	28	1.4	301,307	145.9
Haringey	2,026	877	43.3	1,123	55.4	26	1.3	271,224	133.9
Newham	1,820	691	38.0	1,068	58.7	61	3.4	347,996	191.2
Ealing	1,550	669	43.2	867	55.9	14	0.9	342,736	221.1
Greenwich	1,499	651	43.4	836	55.8	12	0.8	282,849	188.7
Barnet	1,388	548	39.5	827	59.6	13	0.9	387,803	279.4
Merton	1,272	567	44.6	695	54.6	10	0.8	206,052	162.0
Waltham Forest	1,232	531	43.1	682	55.4	19	1.5	275,505	223.6
Richmond upon Thames	1,130	619	54.8	508	45.0	3	0.3	195,680	173.2
Croydon	948	325	34.3	619	65.3	4	0.4	384,837	405.9
Hounslow	938	399	42.5	534	56.9	5	0.5	269,100	286.9
Redbridge	615	179	29.1	429	69.8	7	1.1	301,785	490.7
Bromley	567	229	40.4	331	58.4	7	1.2	329,391	580.9
Enfield	531	186	35.0	336	63.3	9	1.7	332,705	626.6
Hillingdon	528	166	31.4	356	67.4	6	1.1	302,343	572.6
Kingston upon Thames	454	175	38.5	277	61.0	2	0.4	174,609	384.6
City of London	451	392	86.9	56	12.4	3	0.7	7,654	17.0
Harrow	430	138	32.1	287	66.7	5	1.2	248,880	578.8
Barking and Dagenham	269	79	29.4	183	68.0	7	2.6	210,711	783.3
Sutton	247	78	31.6	166	67.2	3	1.2	203,243	822.8
Bexley	215	57	26.5	155	72.1	3	1.4	246,124	1144.8
Havering	208	82	39.4	125	60.1	1	0.5	256,039	1231.0

Source: Inside Airbnb; ONS, Mid-Year Population Estimates, 2017.

In Tower Hamlets, it actually appears that around 3,700 listings (50 per cent) are for entire properties. In Westminster, on the other hand, 75 per cent of more than 8,000 listings are for entire properties. If these properties have moved from the private rented sector to the short-term lettings sector for part of each year there would be cause for concern. There would be even greater cause for concern if these properties were now permanent short-term lets, unavailable to locals. The fact that we are not able to discern this from publicly available data needs to be remedied.

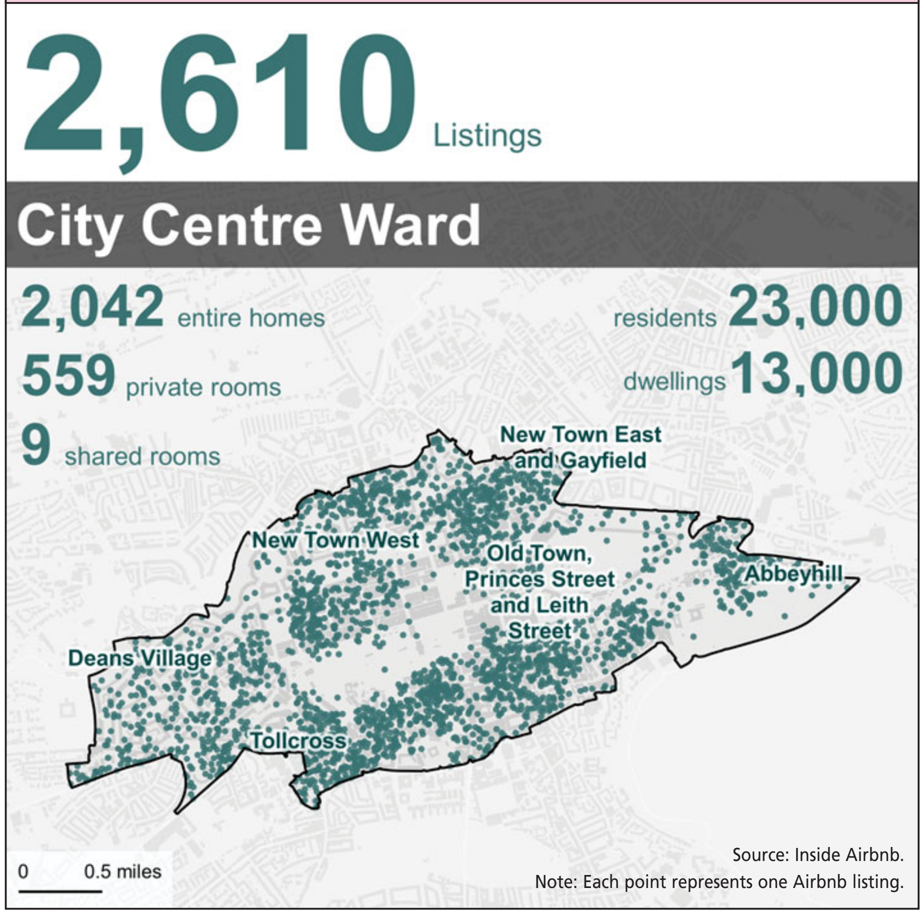
The data provided here are intended to give an overview of the growth of Airbnb and the presence of short-term lets in particular locations. It is very clear when we map the listings that there is a high degree of concentration. Put simply, the rise of Airbnb has been a highly localised phenomenon. Therefore, the next section of this chapter moves down a level to look at the issue at the micro-scale in one urban and one rural location.

Airbnb in Edinburgh and the Isle of Skye

The rise of Airbnb is a UK-wide phenomenon although its growth is concentrated in a relatively small number of locations, including in Scotland. In June 2018, Airbnb revealed through their Airbnb Citizen website the top 15 locations across Scotland, with a total of 10,500 in Edinburgh, up from 1,900 in 2014, and by far the highest in the country; Glasgow was next, with 2,700 listings. There were also significant numbers across the Highlands, with 850 in Inverness, 440 in Kyle of Lochalsh, and 330 in Fort William.[8]

Data from Edinburgh (i.e. within the City of Edinburgh council boundary), sourced from Inside Airbnb in November 2018, suggest the figure had risen to 11,985, with 61.5 per cent being for full properties, 38.2 per cent private rooms and 0.3 per cent shared rooms. For context, the City of Edinburgh had an estimated population of 513,000 in 2017 and a household count of 233,000. Given the growth rates experienced to date, and the fact that Edinburgh is a very popular New Year destination, this figure of almost 12,000 listings seems entirely plausible. When we look at this geographically, we can then see that it is largely concentrated in central Edinburgh (Figure 9.2).

Figure 9.2 **Airbnb listings in Edinburgh's City Centre ward, December 2018**



Source: Inside Airbnb.
Note: Each point represents one Airbnb listing.

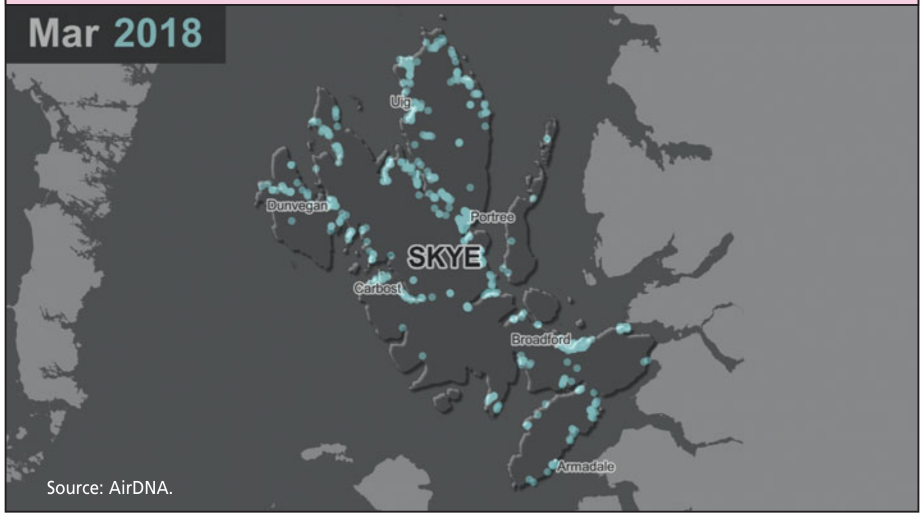
Edinburgh's City Centre ward has a resident population of around 23,000 and about 13,000 dwellings. There are 2,610 Airbnb listings in the area, with just over 2,000 of these being for entire properties. It is perhaps not surprising, given the 1:6.5 ratio of entire property listings to dwellings, that significant concerns have been expressed in recent years about such numbers being unsustainable. It is also not surprising that the issue has been debated in the Scottish Parliament, with Conservative MSP Graham Simpson saying regulation 'may well be necessary' and

Kevin Stewart, the Minister for Local Government, Housing and Planning, stating in a debate on the topic of short-term lets that such tourism 'should not be at the expense of local communities' (N.B. a licensing scheme is now in place).

The issue was also the focus of a conference in March 2018, hosted by the Cockburn Association, a prominent Edinburgh civic society organisation. The post-conference report acknowledged the importance of tourism to Edinburgh's economy but noted that in addition to disrupting the established hotels market, it also had a negative impact upon housing markets and neighbourhoods. Their view was that there is 'an imperative need to license and regulate'.[9]

Clearly, there are some issues to be addressed with regard to the rapid growth and lack of regulation of short-term lets in cities as popular as Edinburgh or, more accurately, in parts of cities. This is a critical part of the story that should not be overlooked when it comes to policy. A combination of data and local responses provides evidence of this. Yet the phenomenon is not just an urban one. The Isle of Skye is a case in point.

Figure 9.3 **Map showing approximately 500 Airbnb listings on the Isle of Skye, March 2018**



Source: AirDNA.

With a resident population in 2017 of just over 10,462 in 5,813 dwellings, Skye has been the recent focus of media attention owing to what has been described as 'overtourism'; put simply, its infrastructure and accommodation in particular have struggled to cope with tourist demand.

Data from Airbnb in June 2018 tell us that there are 550 Airbnb listings in the Isle of Skye, or almost one for every ten dwellings (Figure 9.3). Short-term lets have been a prominent feature of the Skye economy and housing market for many decades, and their presence is nothing new, yet there has been considerable concern of late that a tipping point has been reached, with several recent media stories focusing on the issue, including a special report by Channel 4 News in June 2018.[10] In particular, there are concerns that the current lack of affordable housing, likely exacerbated by the growth of short-term lets, has seriously impacted the ability of the NHS to recruit staff.[11] Another sign that demand may be outstripping supply in the sector is the number of new, non-traditional, non-permanent properties listed on Airbnb in Skye. These include free-standing wooden pods, cabins and a number of caravans and camper vans.

The growth of short-term lets in the UK: three key issues

The evidence above indicates that the growth of short-term lets has impacted and disrupted not only the established hotels market, but also housing markets and neighbourhoods. The question about the latter is 'to what extent?' and, therefore, 'what should be done about it?' There are three key issues.

The first relates to potential non-compliance with existing regulations, such as insurance, fire safety and planning permission. This applies in the UK but also internationally, as evidenced by the numerous press reports about what happens when short-term stays 'go wrong'. Airbnb provide excellent resources for hosts on their 'responsible hosting' web pages, yet at present the lack of monitoring and licensing in most jurisdictions makes regulatory compliance something of a grey area in policy terms.

The second key issue arising from the rapid increase in short-term lets is the impact on neighbourhood amenity. In the most popular neighbourhoods across the world, referred to as 'globalhoods' by this author,[12] there is a kind of housing-based 'tragedy of the commons' where individual visitors deplete the shared resource of the neighbourhood, for the most part unintentionally. Thus it is the case that established communities in cities like Barcelona, New York, Melbourne, Berlin and Edinburgh are often caught in a trap between a new form of dynamic, digitally-driven capitalism and a local regulatory environment that is struggling to keep up. This is particularly important given the fact that it is not just homes, but entire neighbourhoods, that are being shared.

The third issue is what impact all this activity is having on established housing markets. There is little evidence to date of a *significant* increase in rents or house prices associated with the rise of short-term lets. In New York City, for example, rents were reported to have increased by just 1.4 per cent as a result of Airbnb reducing housing supply.[13] The evidence presented here suggests that there is likely to be significant, quantifiable impacts upon established housing markets both with respect to rising rents and increased property values, but only in quite tightly bounded local areas, such as Edinburgh's New Town, or parts of it. The lack of data for such small areas makes identifying this relationship more challenging, yet it is not too much of a leap to presume that the two might be connected. This is one of the main areas in which further research and better data are needed.

How should policymakers respond?

The big question, of course, is what this means for UK housing policy. Some form of additional regulation is perhaps necessary if growth continues unabated and local authorities have no way to accurately monitor the situation. For Edinburgh this may come in the form of a suggested amendment to the Scottish Planning Bill suggested by MSP Andy Wightman. The amendment would treat short-term lets as a 'change of use' and require formal planning permission. The bill is currently at stage 2 of the legislative process and is not due to proceed to stage 3 (i.e. for approval or rejection) until Spring 2019, yet if it comes into effect it could significantly change the sector and bring it into line with other housing tenures (N.B. planning law changes took effect in 2022).

Yet despite the problems discussed here, the original business model of Airbnb and the sharing economy more generally is still arguably a force for good. It is also likely here to stay, so we need to find accommodation for both in a way which protects the rights of individual residents, preserves neighbourhood amenity and allows the continuation of high-volume tourism in our most popular locations. The situation as it stands does not seem sustainable.

Approaches which seek to mitigate negative externalities should be spatially-sensitive and recognise that not all areas are affected equally, as we can see clearly in Table 9.1 where several London Boroughs with more than 200,000 residents have fewer than 500 Airbnb listings.

Three practical suggestions can be offered for better management of the short-term lettings sector. These may not necessarily be straightforward or quick to implement, but in the long term they could mitigate some of the most serious negative externalities:

- First, and echoed in reviews of the short-term lettings sector across the world, is to simply ensure better data exist on short-term lets, so that local authorities can keep track of their growth and location. International evidence suggests that there is a real data deficit in relation to the scale of the phenomenon, making it harder to manage. The maxim that 'if it cannot be monitored it cannot be managed' seems apt. A possible solution already exists and has been in effect in Barcelona and Catalonia since June 2018. Airbnb launched a 'responsible home-sharing tool' which allows for more scrutiny of the sector.[14] New hosts on Airbnb are required to consent to data sharing with the local authority, '...making it easier for them to verify that listings comply with the law and to help clampdown on potential bad actors'. This emerged after a year of negotiation between Airbnb and the City of Barcelona, and provides a model which other cities could follow. Sharing data on the location, duration and management of short-term lets would be a simple and effective solution to the current lack of reliable information.

- Second, monitoring and regulation of the short-term lettings sector requires an appropriate level of resource. This could be funded through a modest 'tourist tax' of the kind in place in cities such as Amsterdam, and in more than 400 governments and local authorities across the world. In July 2018, Airbnb also started collecting tourist tax in 22,821 cities in France and in August 2018 they gave their backing to such a levy in Edinburgh. At the time of writing, the City of Edinburgh is in fact consulting on the introduction of a transient visitor levy, or 'tourist tax' (N.B. Scottish councils are, in 2023, being given powers introduce such a tax). Management of any sector costs money, and this would be a way to fund it that has also worked successfully across the world. Navigating the politics of such a move may prove difficult, yet it seems like an appropriate compromise. Given the experience of other cities it is unlikely to have a detrimental impact upon visitor numbers.

- Third, local authorities ought to be able to introduce, through the planning system, caps on the number of short-term rentals in particular high-pressure areas. This could be ward-based and such 'visitor pressure zones' (VPZs) could then be monitored and managed locally to ensure there is a balance between neighbourhood amenity and local economic vitality. There are elements of this in Glasgow's City Development Plan 2017 (Section 4.6) yet it is unclear whether a policy of this nature would stand up to legal scrutiny.[15] Such a proposal is of course potentially complex and controversial, yet it is worth exploring more fully. The reason for suggesting this geographical policy intervention is that the negative externalities associated with short-term lets appear to be more spatial than temporal yet, to date, policy responses have instead focused on time limits rather than location limits.

Given the inelasticity of housing supply, and that fact that homes are not principally an economic good, it is unsurprising that the question of short-term lets has risen up the policy agenda. Yet it is unlikely to trouble politicians at the national level, owing to its highly localised nature, and the fact that companies like Airbnb bring undoubted economic benefits to local economies across the world. Policy interventions to date have tended to focus on time limits, such as the mooted 90-day cap in Edinburgh, but as we have seen it is often the geographical concentration of short-term lettings that is the root of the problem. The challenge now for UK housing policy is to balance the interests and rights of residents with this form of digitally driven global capitalism.

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Part 3 Housing Tenures and Support

Chapter 10

The realities of assistance to first-time buyers

Peter Williams and Steve Wilcox

UK Housing Review 2018

Such are the complex politics of housing that the fate of first-time buyers has probably been the pre-eminent issue for most of the past year even though there are many other pressing housing concerns such as homelessness and rough sleeping, the provision of social housing and many more. Indeed, housing in general and first-time buyers in particular currently sit right up there, just below Brexit, as a central popular and media focus.

In part this is because first-time buyers are seen as a touchstone about the general health of society and people's capacity to get on and get ahead. For a while the issue moved out of focus, with governments effectively more concerned to see the growth of an active private rented sector. However the failure to deliver on the aspiration to own is a deeply sensitive political issue that potentially undermines governments and threatens their hold on power, and so it should be no surprise that it has once again come to the fore. The Conservative Party constantly reaches back to the introduction of the right to buy as its most successful domestic policy intervention – linking the erosion of social housing with expanding homeownership – and it remains deeply wedded to the latter, fully recognising its political significance.

Trends in first-time buyers

What is striking when we look at first-time buyers is not only the limits of the data available to track closely how this market has evolved over time in the UK and its constituent countries, but also how the fortunes of first-time buyers have changed as measured by the number of mortgages advanced to this category of borrowers. As Table 10.1 shows, the number of loans to first-time buyers peaked in 1986 (or 1999 or 2001 in Wales and Northern Ireland), followed by a universal decline to the trough in 2008 before a modest recovery to 2016, the latest data available. Current lending in terms of numbers is half what it was at the peak, suggesting opportunities to enter homeownership are much reduced compared to previous decades. We can also note that the age of the typical borrower has increased over the period 1979-2016 from 26 to 30 (UK) and the percentage advance has declined from an average of 93 per cent to 84 per cent. The only real metric to improve has been median interest payments as a percentage of income – this peaked in the UK at 28 per cent in 1990, sliding down to 9.2 per cent in 2016.

Table 10.1 **Peaks, troughs and recovery: number of loans to first-time buyers by country**

Country	Peak year (1986 or as specified)	2008 'trough'	2016 'recovery'	2016 as % peak	Peak year as % total no. of loans	2016 as % total no. of loans
England	**517,200**	**159,000**	**285,200**	**55%**	**48%**	**48%**
Wales	**27,500 (1999)**	**7,700**	**14,800**	**54%**	**50%**	**50%**
Scotland	**53,300**	**16,700**	**31,600**	**59%**	**59%**	**50%**
Northern Ireland	**18,300 (2001)**	**2,900**	**8,100**	**45%**	**58%**	**58%**
UK	**612,700**	**192,300**	**339,600**	**55%**	**49%**	**48%**

Source: UK Finance, Table ML.2 covering the period 1979-2016 and Table ML.4.

Clearly there has been some recovery since 2008 though it has varied between countries with Northern Ireland showing the strongest performance (up 273 per cent – albeit from the deepest trough) and England the weakest (179 per cent). As the final two columns in Table 10.1 show, in general the first-time buyer share of the total number of loans for house purchase is now much the same as in the peak year, having recovered from the decline in the pre- and post-2007 years, except for Scotland where it remains some way below its 1986 level.

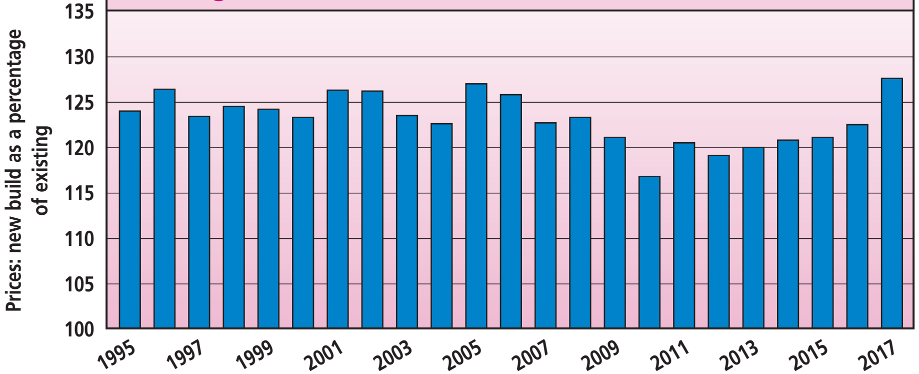
Assistance to first-time buyers

We should note that Northern Ireland has limited its government mechanisms for boosting homeownership by focussing on its longstanding co-ownership housing scheme. Northern Ireland participated in the Help to Buy mortgage guarantee scheme which ran from 2013 to the end of December 2016, but not in the Help to Buy (HtB) shared equity scheme used by the other three countries. In all cases these schemes were additional to other common existing programmes – e.g. shared ownership and right to buy (except in Scotland where it ended in 2016 and with Wales doing the same by May 2021 at the latest (N.B. it ended in 2019), together with less common schemes such as LIFT in Scotland (of which one variant is an open market shared equity scheme), Rent First in Wales and Rent to Buy in Northern Ireland.[1]

Over the period April 2013 to March 2017, 136,876 HtB equity loans were agreed along with 104,657 mortgage guarantees – 241,533 in total across the four countries, making up around nine per cent of all house purchase loans made over this period. Without doubt the mortgage guarantee scheme helped re-open the higher LTV market albeit this remains much smaller than it was in the early 2000s (see Figure 10.2). The Help to Buy scheme has been formally evaluated in England and Wales, highlighting the support given to first-time buyers (around 80 per cent of the recipients) but raising questions as to whether the schemes are sufficiently well-targeted given the evidence that a considerable number of users could have bought a smaller and cheaper home without using the scheme.[2]

However this rather overlooks the second of the two objectives set – not only to assist first-time buyers but also to stimulate the new homes market. It has clearly been a factor in the recovery in housebuilding. Against that the evidence of significant price impacts remains weak – despite this being a central critique – albeit the price of new build homes relative to existing dwellings – the so called new build premium – does seem to have risen sharply in recent years. Figure 10.1 shows that it is now a little higher than in the years before the credit crunch, though this is partly explained by market recovery as distinct from the specific impact of Help to Buy.[3]

Figure 10.1 **Ratio of house prices between new build and existing dwellings**



Source: Office for National Statistics Mix-Adjusted House Prices; author's calculations.
Note: 2017 figure average for first eight months only.

With first-time buyers buying new homes via HtB rather than in the existing market the scheme has probably contributed to an erosion of housing chains and overall transaction numbers, not least because in buying better and bigger such households then no longer need to make a second move to deal with, for example, the arrival of a family.

As well as the two schemes, government is also contributing via the Help to Buy ISA, shared ownership and the right to buy. In 2016 shared ownership sales per annum were around 10,000 in England (both new and existing stock) alongside about 18,000 right to buy sales (or 21,000 in the UK – see Compendium Table 20). At the same time Help to Buy ISAs supported some 44,750 property completions in 2016 (over the UK – the total budget allocation for the ISA schemes is over £2 billion initially but grows substantially over the longer term). All in all government in England probably supported some 100,000 first-time buyer transactions in 2016, roughly one-third of first-time buyer activity. More was promised in the shape of the Starter Homes initiative from December 2014 but mystery surrounds the promised 200,000 homes by 2020 and to date none have been built.

Alongside this, other research suggests that a quarter of home buyers in the UK (70,000 households) and a third of first-time buyers in England (90,000 households) received parental help in 2015 or 2016.[4] This gives a crude estimate of perhaps 160,000 to 190,000 or more first-time buyers in England who were supported either by the government and/or by their parents – between a half and two-thirds of the total (but with some double counting). These numbers may grow further: government support for Help to Buy, not least in London, will ensure continued momentum until the end of the decade, and the expectations are that parental support will also grow. However, the mortgage guarantee scheme has been closed, with its 'funds' effectively transferred to extend Help to Buy, and the allocation for the much-vaunted Starter Homes initiative has been reduced to fund additions to the affordable housing programme, announced just ahead of the 2017 Autumn Budget).

How then is the assistance distributed? Analysis by Walker suggests that the various schemes have different reach in terms of the income groups receiving support, with shared ownership assisting more lower-income households than

Help to Buy and with right to buy probably going even further down the income spectrum.[5] Other studies on income and age distribution for the Resolution Foundation and the Social Mobility Commission show that we have had an emptying out of homeownership by age band, the impact falling disproportionately on the younger age bands, i.e. those under 30.[6] The Resolution Foundation analysis compares the position in 1984/85 with 2016 and finds the homeownership rates for the latter are around 20-25 percentage points lower, a similar conclusion to that reached by the Social Mobility Foundation's study. Moreover, looked at in cohort terms, over time we can see a steady erosion in the capacity of households in younger age groups to catch up with the homeownership rate of the preceding cohort of such households. The picture by income is perhaps a little less clear, partly because of the wide variations in house prices across the UK, but we can see that whatever the income band the rate of ownership has come down over time for 25-34 year olds and that the sharpest declines observed – in the middle quintiles – have now moved their ownership rates ever closer to those in the lowest quintile.

Mortgage lending

The picture in the UK is not dissimilar to other countries where the same squeeze on younger households has been observed, in terms of both homeownership rates and also living longer with parents.[7] How far can the decline be explained by the tightening of the mortgage market regimes in most countries since the global financial crisis (GFC)? Inevitably there is a complex mixture of factors at work but preliminary findings suggest there is a close link between this tightening of access to mortgages and falling rates of homeownership for younger households.

To illustrate the point from the UK perspective, Table 10.2 looks at mortgage lending over time by different characteristics prior to the GFC and recently and it does show a significant tightening even when taking account of the overall reduction in mortgage lending. The contraction in the number of high loan-to-value (LTV) mortgages (i.e. those of 90 per cent or more) for first-time buyers is very clear, for example down from 52 per cent in 2006 to just six per cent per cent in 2013.

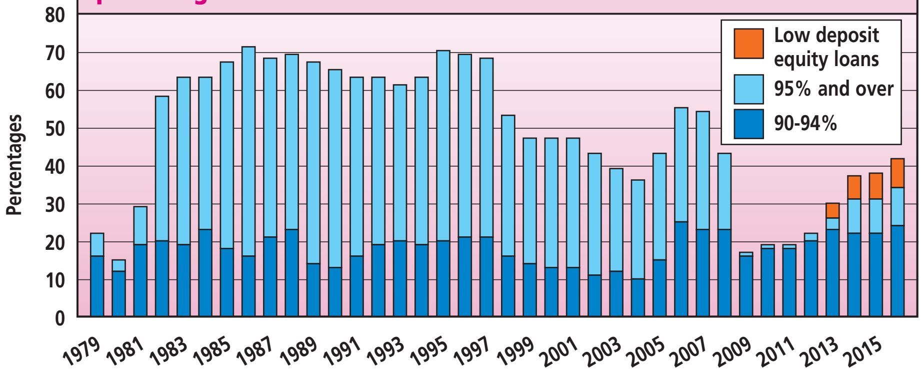
Figure 10.2 shows high LTV loans were even more readily available in the 1980s and 1990s following financial deregulation, with LTVs of 95 per cent and over very ready available, and for many years accounting for around a half of all first-time buyer purchases.

Table 10.2 **The changing characteristics of mortgage borrowing, 2006-2017**

	2006	2013	2015	2016	2017 (first half year)
All borrowers					
With impaired credit history	**92,687**	**2,068**	**3,831**	**4,856**	**2,736**
	4.0%	**0.2%**	**0.4%**	**0.4%**	**0.5%**
Loans of 90 per cent LTV or more	**305,131**	**24,378**	**87,445**	**100,857**	**47,418**
	13.2%	**2.6%**	**8.7%**	**9.3%**	**8.6%**
Self-employed	**391,540**	**95,206**	**101,430**	**115,895**	**58,329**
	17%	**10%**	**10%**	**11%**	**11%**
Total loans made	**2,325,243**	**933,001**	**1,004,127**	**1,088,713**	**549,581**
First-time buyers					
Loans of 90 per cent LTV or more	**150,227**	**13,873**	**59,397**	**69,775**	**32,496**
	36.2%	**5.5%**	**20.8%**	**22.3%**	**21.0%**
Loans of 95 per cent LTV or more	**59,064**	**483**	**1,101**	**3,175**	**1,689**
	15.8%	**0.2%**	**0.4%**	**1.0%**	**1.1%**
Total loans made	**373,330**	**252,081**	**286,232**	**312,502**	**154,475**

Source: FCA Annual PSD Mortgage Data.

Figure 10.2 **Low-deposit mortgages for first-time buyers return to pre-deregulation levels**



Source: UK Finance.
Note : Low deposit equity loans are those requiring a deposit of no more than 10 per cent.

Little wonder that we have seen a rise in the use of cash and (as discussed earlier) the increased reliance on the Bank of Mum and Dad. Help to Buy equity loans have also reduced the requirement for deposits, as these effectively top-up mortgages to allow a much lower LTV ratio. For example a 20 per cent equity loan on top of a 75 per cent LTV mortgage, leaves the mortgagor only requiring a five per cent deposit. Figure 10.2 illustrates this impact, and the contribution this has made to the recovery in levels of first-time buyer house purchase requiring relatively low levels of deposit. However this figure also shows that even after taking HtB into account, the availability of low-deposit entry to homeownership remains some way below the levels that prevailed over most of the 25 years from 1983 onwards.

Competition with buy to let investors

In recent decades we have seen a resurgent private rented sector, reflecting both demand from households – including some not able to access homeownership (or social housing) – and a linked increase in appetite to invest in this market as investors searched for return in the low-rate environment that followed the GFC. As this might suggest, the Bank of England and the government have in some senses created an environment in which the PRS in general and buy to let (BtL) in particular were given a considerable stimulus.

As the PRS expanded and as tensions around the decline of homeownership grew, so the Westminster government and notably former Chancellor Osborne began to take an ever more negative line about the BtL market, arguing that investor purchases were squeezing out first-time buyers. The evidence for this is and was weak. Clearly investors did have advantages – unlike first-time buyers they could still access interest-only loans and they could also buy off-plan more easily. Without doubt there were first-time buyers who lost out to investors. However the question then is what is the scale of this 'problem'? The simple numbers help put this in perspective: in 2015 there were 120,000 purchases by investors compared with over 300,000 by first-time buyers. Hamptons the estate agents have been tracking transactions where first-time buyers come up against investors.[8] The data show that competition between the two segments intensified through the mid-2000s, peaking in 2015-16 at around 27 per cent of UK transactions and then falling away to around 19 per cent in 2017. Competition was more intense in London, peaking at 39 per cent in 2015-16 and then falling away to 21 per cent in 2017. The data suggest that there is competition in a minority of transactions and that this has declined. This coincides with the actions taken in the 2016 Budget to reduce the tax advantages enjoyed by landlords and to increase the stamp duty take from them. Forecasts suggest BtL mortgaged purchases will fall away to 80,000 in 2018 and 2019.

Volatility and risk

All buyers, but especially first-time buyers, are exposed to the continuing volatility of the UK housing market and the risks in terms of fluctuating prices, interest rates and demand. Recent research for UK Finance has explored the on-going nature of the housing safety net for assisting households in difficulty.[9] Although there is a link between arrears, default and high loan-to-value mortgages it is only really with 100 per cent loans that this becomes most marked. Given these are now very rare anyway it raises the question of the scale of exposure of mortgage borrowers in general and first-time buyers in particular to rising interest rates given we have now probably passed the bottom of that cycle.

The research showed that at the end of 2016 there were around 11.1 million loans on lenders' books. Of these, 1.9 million were BtL loans and the remaining 9.2 million were for homeowners. UK Finance data on the eight million regulated loans shows that over 3.3 million had an indexed LTV of less than 50 per cent and that the majority of the 1.2 million missing from this database will be pre-regulation (advanced before October 2004), and therefore almost all at lower LTVs. So the fact that, in total, over 4.5 million of the 9.2 million homeowner loans are currently at these low LTVs is a significant risk mitigator. We thus have about 4.7 million remaining homeowner loans that are above 50 per cent LTV. Most of these will have been taken out in more recent years and, since April 2014, the FCA has required most new loans to be affordability stress-tested against an increase in interest rates. As at the end of 2016, over two million of the loans still on the books are identified as having been stress-tested in this way. Thus we are left with around 2.7 million mortgage loans which have not been tested and which are above 50 per cent LTV – around 30 per cent of all loans outstanding. Further work is necessary to drill down on this exposure, and of course it will include first-time buyers.

The HtB equity loan scheme does pose a specific risk because of the equity loans that are taken out. In one sense this risk is borne by the government – if the value of the home declines, the government equity loan is a second charge and takes the hit alongside the buyer deposit. However if the household is to aspire to outright ownership it is exposed to any increase in house prices which is then captured by the equity loan and must be repaid. To date the number of full and partial loan redemptions is small – under five per cent – but the receipts are forecast to rise sharply from £30 million in 2017/18 to £1.5 billion in 2022/23 – in part triggered by the interest charge that is levied on all loans once they have been in place for five years. Thus as of April 2018, households who joined the scheme five years previously will start paying interest on their equity loans at an interest rate/fee of 1.75 per cent on the amount of the equity loan at the time the property was purchased. This charge then rises annually by the increase (if any) in RPI plus one per cent. Assuming RPI + 1 will equal around four per cent and a typical equity loan of £40,000 in England outside London and £160,000 in London, the charge will add around £750 to £3000 per annum to a household's costs. This is expected to encourage buyers to redeem the equity loans albeit that in some areas the scale of house-price inflation will be considerable. This might be an even more acute problem in London where a 40 per cent loan is possible and where apart from certain areas house price inflation has continued quite strongly – even though it has slowed over time (and is now negative in some areas).

Affordability and government support

First-time buyer numbers have recovered to a degree but they are still well below historic levels despite the very significant scale of support put into that market segment. It is clear that without government support the numbers would be even lower. A Finance forecast for 2018 and 2019 suggests that 'the recovery in first-time buyer numbers continues over our forecast period, though at a slower rate than we have seen over the last few years'. UKF notes that first-time buyers now make up around half of all transactions and have overtaken home movers.

The evidence suggests that there are still many households excluded from buying a home not least because of tighter mortgage regulation. It is hard to put a number on both those excluded via regulation or because of wider affordability issues linked to price and incomes, but previously the *Review* has reported estimates of upwards of one million would-be buyers who have not entered the market. The government has estimated that the recent cut in stamp duty for first-time buyers will help 205,000 households in 2018/19, but this includes those who would have managed to purchase in any event; there are to be similar cuts in Scotland.[10]

Tables 10.3 and 10.4 give a long-run picture of the position of first-time buyers in relation to affordability, as measured by their mortgage costs in relation to average incomes for all working households. Readers should note that these tables are based on a Nationwide BS data series which uses a markedly different and in some respects more stable approach to mix adjustment (using a consistent mix-adjustment formula throughout), rather than the previous ONS series used in earlier editions of the *Review*, based on a rolling three-year mix adjustment.

What both tables show is how in general affordability and mortgage cost-to-income ratios have improved since the peaks of 2007 with most regions now having ratios roughly back to where they were in 2003. London remains the exception where the ratios became worse until 2016 and then marginally improved. On a country basis we can see that the position in Scotland and Wales has settled back to something closer to a long-run average. Northern Ireland – having peaked in 2007 with the worst ratios across all of the UK – has improved to a degree. England tops the league table on both measures and though levels fell away post-2007 the indices remain quite unfavourable.

The affordability tables show how low mortgage costs are – reflecting low borrowing costs and a competitive mortgage market – and that the main problems households face are the lack of a deposit of the size now required, given high house prices relative to relatively flat wage growth, and their ability to pass through the mortgage affordability tests now in place. Those tests are there for very good reasons and to some degree will always frustrate individual and government ambition in the first-time buyer space.

Table 10.3 **Mortgage cost-to-income ratios**

Based on first-time buyer house prices, average mortgage rates and average incomes for all working households

Country/Region	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
United Kingdom	8.4	8.1	8.4	10.1	10.5	10.2	11.5	10.9	12.1	13.5	18.0	17.3	18.4	21.2	18.4	14.2	14.6	13.9	14.3	13.6	15.0	14.7	14.5	14.4
North	7.6	7.4	7.9	8.3	8.7	8.1	8.7	7.7	8.5	10.6	16.0	14.6	15.5	17.1	15.1	11.5	11.3	10.8	11.2	10.7	11.3	11.3	10.6	10.3
North West	8.9	8.1	8.3	9.5	9.5	9.0	9.9	9.5	10.2	11.3	16.5	16.4	17.5	18.5	15.9	12.3	12.0	11.3	11.3	11.0	11.8	11.2	10.9	11.0
Yorkshire and The Humber	8.7	7.9	8.3	9.4	9.5	8.8	9.9	9.1	10.1	11.5	16.7	16.5	17.8	19.4	17.1	13.4	13.4	12.0	11.5	11.1	11.5	11.2	10.8	10.6
East Midlands	7.9	7.8	8.0	9.8	9.7	9.3	10.4	9.7	11.0	13.0	17.8	17.3	18.5	20.4	17.3	12.6	13.0	12.4	13.3	12.5	13.3	12.8	12.5	12.5
West Midlands	9.4	9.4	9.3	10.7	10.2	9.9	11.1	11.1	12.3	14.0	17.8	16.9	17.4	19.2	16.9	13.4	14.2	13.3	13.5	12.5	13.7	13.1	12.8	13.2
East Anglia	8.5	8.3	8.6	10.4	10.2	9.7	11.4	11.2	12.4	13.3	16.9	16.1	16.9	18.9	16.4	12.4	12.4	12.4	12.8	12.4	13.2	13.0	13.1	13.0
London	10.4	10.3	11.0	14.4	14.8	14.8	17.0	16.1	17.3	18.6	23.5	21.9	23.1	25.4	22.0	17.3	19.5	20.1	21.7	21.6	25.6	26.4	26.7	26.1
South East	9.5	9.0	9.3	11.3	12.0	11.3	13.4	12.7	15.0	16.7	20.5	18.8	20.2	22.6	19.5	15.0	16.0	14.9	15.3	14.6	16.8	17.1	17.6	17.5
South West	9.3	9.6	9.6	11.8	12.4	12.0	14.0	12.8	14.8	16.6	21.7	20.3	21.0	24.0	20.7	16.1	16.4	15.2	15.7	15.2	17.4	17.2	17.0	17.0
England	9.3	9.0	9.3	11.4	11.6	11.3	13.0	12.4	13.8	15.3	19.8	18.8	19.8	22.1	19.2	14.9	15.6	14.9	15.4	14.9	16.8	16.9	17.0	16.8
Wales	9.5	8.5	8.1	9.5	10.0	9.8	11.0	10.0	10.6	12.2	18.4	18.3	18.8	19.9	17.1	12.5	13.1	12.8	12.7	12.0	11.7	11.0	10.5	10.4
Scotland	8.1	8.0	8.2	9.5	10.0	9.3	9.9	8.8	8.8	9.0	12.3	12.3	13.9	16.4	14.5	11.3	12.3	10.6	10.7	9.6	10.2	9.5	9.0	8.8
Northern Ireland	6.6	7.7	9.2	11.0	12.3	11.7	13.1	11.9	11.7	12.1	15.8	16.2	20.4	28.8	20.5	14.6	12.6	12.0	11.1	11.0	12.0	12.3	11.6	11.6

Source: Computed from Nationwide mix-adjusted house prices for first-time buyers and household earnings data from the Living Costs & Food Survey.
Note: Mortgage costs assume a constant 82% mortgage-advance-to-house-price ratio, in line with the average over the period. They are based on average mortgage lender rates for new mortgages in the last quarter of the year, and assume a standard 25-year repayment mortgage. The income data are based on government office regions, while the house price data are based on standard regions. Particular caution should therefore be given to the figures for East Anglia and the South East.

Table 10.4 **The *UK Housing Review* Affordability Index**

Based on mortgage costs-to-income ratios for first-time buyers

Country/Region	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
United Kingdom	100.0	96.4	100.0	120.2	125.0	121.4	136.9	129.8	144.0	160.7	214.3	206.0	219.0	252.4	219.0	169.0	173.8	165.5	170.2	161.9	178.6	175.0	172.6	171.4
North East	100.0	97.4	103.9	109.2	114.5	106.6	114.5	101.3	111.8	139.5	210.5	192.1	203.9	225.0	198.7	151.3	148.7	142.1	147.4	140.8	148.7	148.7	139.5	135.5
North West	100.0	91.0	93.3	106.7	106.7	101.1	111.2	106.7	114.6	127.0	185.4	184.3	196.6	207.9	178.7	138.2	134.8	127.0	127.0	123.6	132.6	125.8	122.5	123.6
Yorkshire and The Humber	100.0	90.8	95.4	108.0	109.2	101.1	113.8	104.6	116.1	132.2	192.0	189.7	204.6	223.0	196.6	154.0	154.0	137.9	132.2	127.6	132.2	128.7	124.1	121.8
East Midlands	100.0	98.7	101.3	124.1	122.8	117.7	131.6	122.8	139.2	164.6	225.3	219.0	234.2	261.5	221.8	161.5	166.7	157.0	168.4	158.2	168.4	162.0	158.2	158.2
West Midlands	100.0	100.0	98.9	113.8	108.5	105.3	118.1	118.1	130.9	148.9	189.4	179.8	185.1	204.3	179.8	142.6	151.1	141.5	143.6	133.0	145.7	139.4	136.2	140.4
East Anglia	100.0	97.6	101.2	122.4	120.0	114.1	134.1	131.8	145.9	156.5	198.8	189.4	198.8	222.4	192.9	145.9	145.9	145.9	150.6	145.9	155.3	152.9	154.1	152.9
London	100.0	99.0	105.8	138.5	142.3	142.3	163.5	154.8	166.3	178.8	226.0	210.6	222.1	244.2	211.5	166.3	187.5	193.3	208.7	207.7	246.2	253.8	256.7	251.0
South East	100.0	94.7	97.9	118.9	126.3	118.9	141.1	133.7	157.9	175.8	215.8	197.9	212.6	237.9	205.3	157.9	168.4	156.8	161.1	153.7	176.8	180.0	185.3	184.2
South West	100.0	103.2	103.2	126.9	133.3	129.0	150.5	137.6	159.1	178.5	233.3	218.3	225.8	258.1	222.6	173.1	176.3	163.4	168.8	163.4	187.1	184.9	182.8	182.8
England	100.0	96.8	100.0	122.6	124.7	121.5	139.8	133.3	148.4	164.5	212.9	202.2	212.9	237.6	206.5	160.2	167.7	160.2	165.6	160.2	180.6	181.7	182.8	180.6
Wales	100.0	89.5	85.3	100.0	105.3	103.2	115.8	105.3	111.6	128.4	193.7	192.6	197.9	209.5	180.0	131.6	117.1	134.7	133.7	126.3	123.2	115.8	110.5	109.5
Scotland	100.0	98.8	101.2	117.3	123.5	114.8	122.2	108.6	108.6	111.1	151.9	151.9	171.6	202.5	179.0	139.5	117.1	130.9	132.1	118.5	125.9	117.3	111.1	108.6
Northern Ireland	100.0	116.7	139.4	166.7	186.4	177.3	198.5	180.3	177.3	183.3	239.4	245.5	309.1	436.4	310.6	221.2	190.9	181.8	168.2	166.7	181.8	186.4	175.8	175.8

Sources and Notes: As Table 10.3. Note that there are up-to-date versions of both these tables in the current edition of the *Review* (Compendium Tables 44 and 45).

Though the prime focus of assistance remains the Help to Buy scheme for newly built homes, at least to 2021, the reality is that more could be done to support the would-be buyers of existing homes and to ease deposit requirements, and thus ease the migration from being a private tenant to becoming a homeowner. At present rent to buy schemes tend also to be focussed on new build. The government's proposed competition to help ensure that a good rental payment history is reflected in the loan applicant's credit score is a step in the right direction,[11] and more needs to be done to think about how to connect renting and owning. Schemes of assistance to buy existing homes, such as the long-lamented 100 per cent local authority mortgage schemes of the 1970s and DIYSO – do-it-yourself shared ownership – are those that come to mind.

Progress therefore continues to be made in helping first-time buyers but we might question whether the scale is sufficient to really tackle the problem. The slowdown in house prices and the reduction in stamp duty will help some buyers, but considerable barriers remain and policy continues to be piecemeal. Inheritance will help some households to buy, but nearly half of 20-35 year-old non-homeowners have no parental property wealth.[12] Sound bites are not solutions and a more honest approach is needed.[13] In the meantime frustrations are growing.

We would like to express our thanks to Nationwide BS and Robert Gardner and Andrew Harvey in particular both for providing the data series for Tables 10.3 and 10.4 and for recalibrating them on a standard English regions basis.

Notes and references

1 For useful reviews of various schemes see Walker, C. (2016) *Government Housing Schemes: Accident or Design*, CML Research. London: CML; Wilson, W. *et al* (2016) *Extending homeownership: Government initiatives*, House of Commons Briefing Paper No. 03668. London: HoC Library.

2 For the official evaluation and other reviews see Finlay, S., Whitehead, C. and Williams, P. (2016) *Evaluation of the Help to Buy equity loan scheme*. London: DCLG; Capital Economics (2017) *How would the housing market fare without Help to Buy?* UK Housing Market Focus. London: Capital Economics; Offord, C. (2017) *How does Help to Buy help?* Research note. London: UK Finance.

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10 The draft Scottish Government budget says they are 'introducing a Land and Building Transaction Tax (LBTT) relief for first-time buyers on the first £175,000 of the purchase price which, together with the existing zero rate of LBTT for homes up to £145,000, will mean that 80 per cent of first-time buyers will pay no LBTT.'

11 See www.gov.uk/government/news/fintech-to-help-renters-get-on-the-housing-ladder

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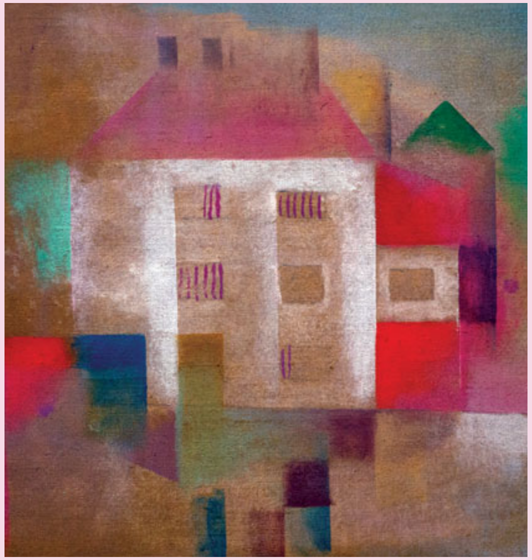
Part 3 Housing Tenures and Support



Chapter 11

Right to buy: the long view of a key aspect of UK housing policy

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UK Housing Review 2022

In over 40 years since the right to buy (RTB) was introduced in England, Scotland and Wales, with a similar scheme in Northern Ireland, over three million dwellings have been sold to sitting tenants, generating over £57 billion in capital receipts. Other research and publications have looked at the detail of RTB policy and its short-term effects – who bought what and where, the winners and losers, and the way it has accelerated the 'residualisation' of public housing.[1]

This chapter takes a longer view: it sets out how RTB policy has evolved over four decades, provides a statistical account of what RTB has delivered in practice, and discusses the longer-term impact of this key element of UK housing policy.

Policy background

RTB was introduced by the Housing Act 1980 in England and Wales and the Housing Tenants Rights Etc. (Scotland) Act. This ended a lengthy period during which ministerial general consents specified terms under which local authorities could exercise discretion over whether or not to sell council houses, including the discounts they could offer. It is often overlooked that more than 370,000 sitting tenants' sales were completed in the two decades up to 1980, before RTB itself became law.

The RTB applied to almost all secure tenants of three years' standing, and almost all properties (both flats, which were generally excluded from discretionary sales, and houses) where the landlord was a council, new town, non-charitable housing association or other public sector body. Government's intention was to include housing association tenants but charitable associations mobilised support in 1980 and 1982 and avoided this imposition.[2] Whilst the Housing Corporation used RTB legislation (in England, Scotland and Wales) to approve the sale of co-ownership housing to occupiers, and effectively wiped that sector out,[3] most housing associations and their stock were sheltered from the RTB. In Northern Ireland a voluntary House Sales Scheme, introduced in 1979, was essentially the same as RTB except that the qualifying period was two years; it was included in legislation in 1983.

The RTB was expressly designed to increase owner-occupation: only sitting tenants qualified and only to become owner-occupiers. It recognised that many council tenants could afford to buy in the open market but, because they valued their home and neighbourhood, chose to remain tenants rather than to buy elsewhere. The strategy for further expanding owner-occupation was, therefore, to enable public sector tenants to buy their existing homes. The two important departures from previous council house sales policies were: removing local discretion over whether and what to sell; and dramatic increases in discounts for qualifying tenants. Previous practice demanded that public assets were sold at the best price achievable: for tenanted properties this was conventionally 20 per cent below vacant possession value. Under the RTB, sale prices were calculated from market valuations, reduced by discounts based on how long applicants had been tenants. In 1980, discounts were 33 per cent for three years' qualifying tenancy, increased by one per cent for each additional year's tenancy, to a maximum 50 per cent. Two additional situations could limit discount entitlement – sale prices were not allowed to fall below the 'cost floor' for the dwelling (outstanding debt associated with construction and capitalised repairs) and, in England and Wales, discounts could not exceed a maximum of £25,000.

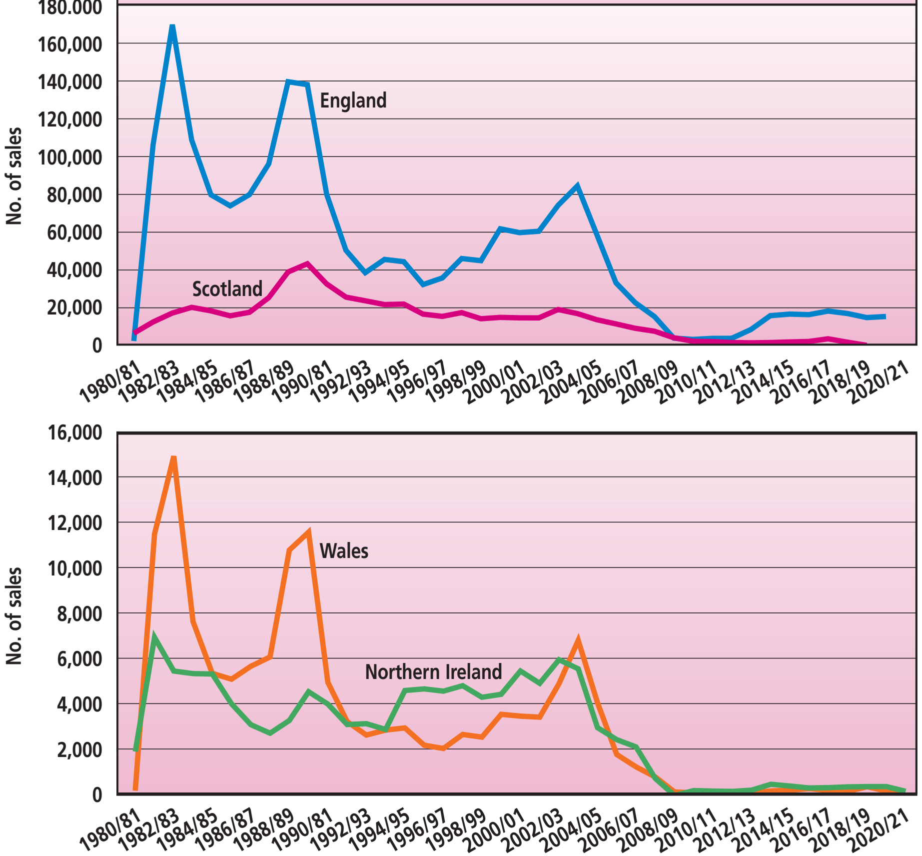
A statistical summary

Over 2.8 million RTB sales have been completed in the UK since 1980. Pent-up demand, generous discounts and publicity generated rapid sales after 1980 and some 40,000 discretionary sales to sitting tenants (on RTB terms) were also completed in 1979. If these, another 128,200 completed between 1980 and 1986,[4] and a further 31,783 between 1991 and 2014/15 are added to RTB sales, a total of three million sales to sitting tenants were completed in the UK between 1979 and 2021.

Changes in unemployment, incomes, interest rates and house prices as well as anticipated and actual policy changes influenced broad annual variations in RTB sales (Figure 11.1).

As RTB sales progressed the numbers of properties still available for purchase declined. Figure 11.2 takes this into account by expressing annual local authority RTB sales as a percentage of local authority stock in the same year. This excludes sales under the preserved RTB but highlights variations within the UK and low rates of sale after 2005, regardless of different discount policies. Wales reached higher peak rates of sale and Scotland had a lower rate of sale than England until 1989 and a higher rate between 1989 and 2012, before policy differences took effect.

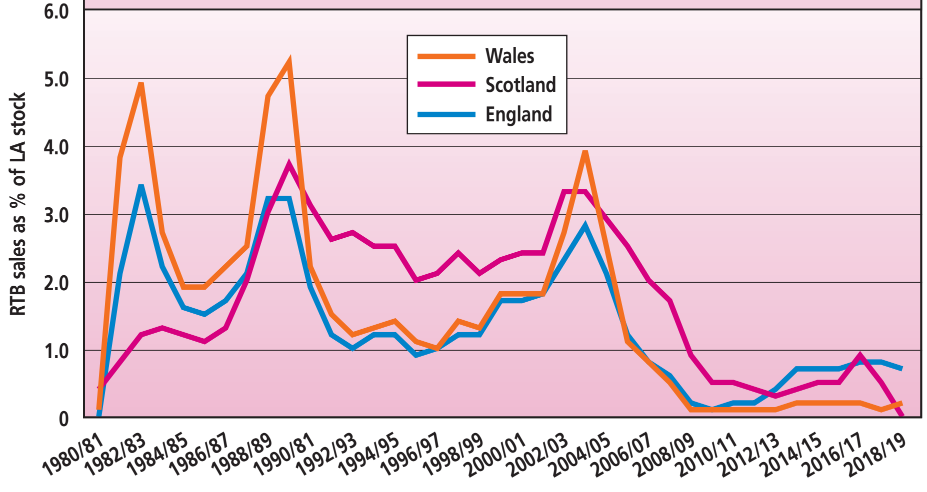
Figure 11.1 **Right to buy sales in the UK, 1980-2020**



Source: Calculated from EMF (2019) *Hypostat*, Table 14.

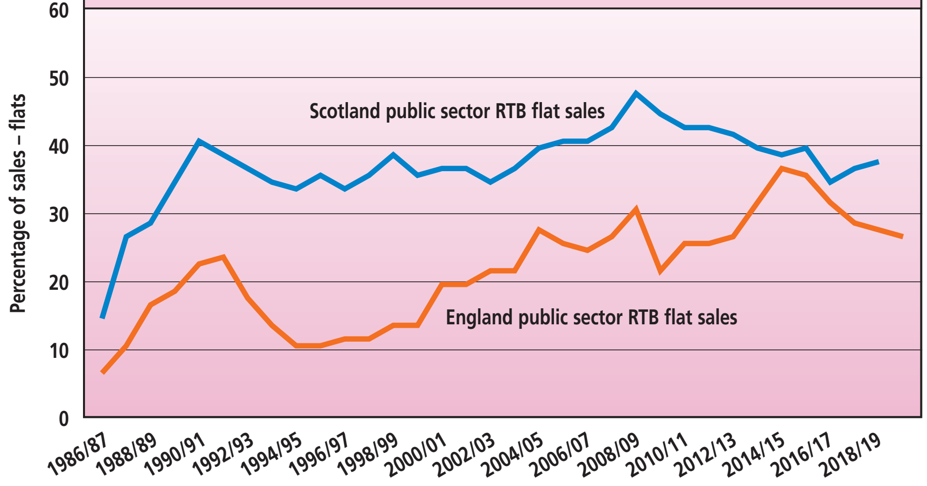
Sales of flats increased after 1986 everywhere but especially in Scotland, where they formed a larger part of the council stock and increased from just over one in ten RTB sales to more than three in ten (Figure 11.3). RTB flat sales in England and Wales rose from a lower level and remained lower than in Scotland. In the early years over 90 per cent of RTB sales in England were of houses, meaning that flats became more significant in the remaining council housing stock. The lower proportion of flats in the Northern Ireland Housing Executive's stock was reflected in sales and also partly accounts for the lower percentage discounts.[5]

Figure 11.2 **Annual local authority right to buy sales as a percentage of stock, GB 1980-2019**



Source: As for Figure 11.1 with addition of local authority stock data from gov.uk.

Figure 11.3 **Right to buy sales of houses and flats in England and Scotland, 1986-2010**



Source: DLUHC Live tables and Scottish Government.

Note: Data are for public sector sales as housing association data are not readily available.

Across the UK, discount arrangements were revised periodically in order to shape policy impacts. Table 11.1 shows the three phases of RTB policy before 2010.

The first phase saw legislation enacting the RTB and then making it more comprehensive and attractive. Legislation also addressed some (but not all) complications arising from selling defective dwellings. The initial peak in RTB sales generally occurred between 1981 and 1983, before a deteriorating economic and housing market situation affected applications and completions.

The second phase commenced in 1986 when higher RTB discounts were introduced to boost sales of flats which had sold more slowly than houses. Policy was still designed to expand owner-occupation but also reflected the intention to shrink the public sector. The prospect of rising rents and the offer of higher discounts were designed to persuade hesitant tenants to buy. The commencement of the stock transfer programme would also progressively reduce the public housing stock and the pool of tenants entitled to RTB. Higher discounts for flats meant that property type as well as valuations and years of qualifying tenancy determined sale prices. RTB sales increased to a second peak in 1989/90 before high interest rates and housing market problems reduced activity.

In the third phase, a new Labour government speeded stock transfers but adopted a more circumspect approach to the RTB – as did devolved governments. A new sales peak in 2002/3 reflected increased affluence, a booming homeownership market and suggestions that RTB would be revoked or made less attractive. New measures reduced discounts, made it easier for councils to reinvest capital receipts in housing, and responded to third-party exploitation of RTB[6] and concerns that

Table 11.1 **Three initial phases of right to buy, 1980-2010**

Phase 1: 1980-1985

1980: RTB legislation.

1984: Qualifying tenancy reduced in England, Scotland and Wales to two years and discounts extended for longer tenancies (starting at 32 per cent for two years' tenancy, increasing by one per cent a year to 60 per cent for 30 years).

Phase 2: 1986-1997

1986: Higher discounts introduced for flats (but not houses) in England, Scotland and Wales (starting at 44 per cent for two qualifying years, increasing by two per cent for each additional year's tenancy to 70 per cent after 15 years). Discount repayment in the event of early resale relaxed; preserved RTB introduced for stock transfer tenants.

1987: Maximum discount in England and Wales increased to £35,000.

1989: Maximum discount in England and Wales increased to £50,000.

1988: Cost floor removed except for properties built in previous eight years.

1993: Northern Ireland statutory scheme open to all secure tenants. For houses: 30 per cent discount for less than two years' tenancy; 32 per cent for two years rising by one per cent for additional years to maximum 60 per cent. For flats 40 per cent discount for less than two years' tenancy; 44 per cent for two years rising by one per cent for additional years to maximum 60 per cent

Phase 3: 1998-2010

1998: In England, cost floor extended to 10-year period; maximum discounts reduced with different regional limits (from £38,000 in London and the South East, down to £22,000 in the North East).

2001: The Housing (Scotland) Act 2001 introduced a modernised RTB for new tenancies commencing after September 2002, with a five-year qualifying period and a single discount structure for all dwellings, starting at 20 per cent for five years' tenancy, increasing by one per cent a year to a maximum of 35 per cent or £15,000 (whichever was lower); the cost floor took account of costs over ten years before application to purchase. The RTB was unchanged for existing tenancies.

1999: Maximum discount of £24,000 introduced across Wales.

2002: Northern Ireland introduced a two-year qualifying period and maximum cash limit of £34,000.

2002: In Scotland, local authorities were able to apply for pressured area status and, if designated, allowed to suspend RTB.

2003: Maximum discount of £16,000 introduced across Wales.

2003: In England, new maximum discounts (£16,000) applied in 'high housing pressure' areas (almost all London boroughs and ten Southern local authorities).

2004: Qualifying tenancy in England and Wales increased to five years: discounts for houses started at 35 per cent for five years, rising by one per cent a year to 60 per cent; flats started at 50 per cent for five years, rising by two per cent a year to 70 per cent. Maximum discounts unchanged but properties set to be demolished excluded from RTB. Repayment of some discount on early resale extended to five years and based on market value.

2004: Northern Ireland increased tenancy qualification to five years; common discounts for flats and houses (20 per cent for five years rising by two per cent a year to 60 per cent maximum); reduced maximum cash limit to £24,000.

RTB delayed and increased the costs of estate regeneration. Lower maximum discounts reduced sales receipts and, although they had not significantly deterred tenants from buying,[7] RTB sales were declining before the global financial crisis (GFC) reduced them to their lowest level since 1980.

The most recent phase of RTB, following the change of government in 2010, involved divergent policies across the UK:

- In 2010, Scotland revised the terms for pressured area designation; and legislation ended RTB for new tenancies from March 2011 and for new homes built or acquired after June 2008 where the tenancy was created from March 2011. Then the Housing (Scotland) Act 2014 abolished RTB with two years' notice (after July 2016).
- Legislation in Wales abolished RTB in 2018 for tenants moving into new social housing and, later, into existing social housing.
- In contrast, RTB was 'reinvigorated' in England with increased maximum discounts (£75,000) in 2012; a higher rate for London (£100,000) in 2013; increased maximum percentage discounts (70 per cent) for houses in 2014; and the qualifying tenancy reduced (from five to three years) in 2015. Discounts for houses started at 35 per cent for tenancies between three and five years, rising by one per cent to 70 per cent after 40 years; for flats, started at 50 per cent for tenancies between three and five years, rising by two per cent to 70 per cent after 20 years. From 2015 maximum cash discounts were increased annually in line with the Consumer Price Index (by 2021, £112,800 in London and £84,600 elsewhere).

Despite unprecedented levels of discounts, RTB sales in England remained low and the easing of housing finance problems arising from the GFC of 2007/08 largely explains their limited recovery after 2011, before they declined again after 2016/17.

Attempts to reinvigorate the RTB in England included proposals to extend RTB to housing associations. Following opposition, a compromise voluntary scheme was piloted and, in 2018, a larger (£200 million) pilot voluntary right to buy was launched across the Midlands through 44 larger housing associations: 1,892 dwellings were sold or nearing completion by April 2020.[8] Without finance for its continuation this scheme stalled. Neither it nor other schemes to expand owner-occupation had anything like the impact of RTB. For example, the right to acquire, introduced for housing association tenants in 1997, generated 8,894 sales between 1998/9 and 2019/20 and Social Homebuy, introduced in 2006, generated just 64 council and 623 housing association sales.[9]

Discounts and capital receipts

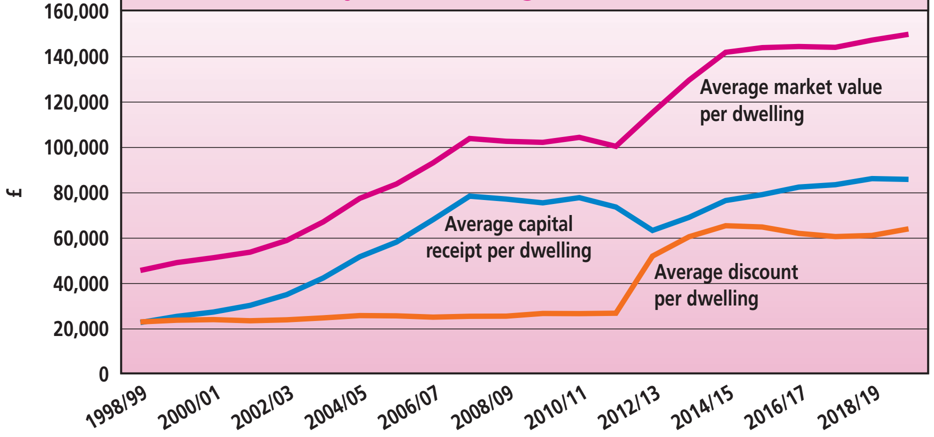
Variations in sales over time, between localities and between houses and flats have raised questions about sale prices and discounts that were both incentives to purchase and either grant expenditures or income foregone by government. From the outset, discounts meant that mortgage repayments were immediately, or quickly, less than rent payments in some places.[10] Sale prices that were well below market values also reduced risks for lenders and encouraged their participation. The value of discounts was greater for tenants living in high-price areas and increased as property values increased. Average percentage discounts reached 50 per cent in England by 1983-85, because early purchasers had long tenancies; and reached 52 per cent in 1990/91 because of increased sales of flats.

Because dwelling types and the market values of public housing differed between countries, regions and localities, national policies presented diverse opportunities and benefits. For the same length of tenancy, potential buyers faced different purchase prices and relative costs of mortgage payments and rents. Unsurprisingly, rates of sale, discount values and asset appreciation after purchase also differed. This pattern has been likened to a lottery – rewards only partly related to length of tenancy and more affected by accidents of time and place.

Cost floor and maximum discount rules affected very few sales in England before 2004, when they significantly affected London and halted their increasing value nationally. Higher maximum discounts subsequently increased the value of discounts more rapidly than of capital receipts (Figure 11.4) and raised questions about proportionality. The cash value of the average discount in 2019/20 exceeded the aggregate average rent paid over the previous 15 years; and the average discount of 43 per cent (13 years tenancy for a house or seven years for a flat, assuming maximum discounts had not applied) indicates that discounts received by some RTB purchasers in England far exceeded their cumulative rent payments. RTB policy in England involved an inefficient use of resources and was pursued without any robust evaluation of alternatives, such as those adopted in Scotland and Wales. The only concessions were to increase the cost floor from ten to 15 years and make a very limited national commitment in 2012 to 'one-for-one' replacement of additional sales following increased discounts – a commitment that was never delivered because of inadequate funding.[11]

RTB discounts (especially in England) provided a disproportionate and unrepeatable benefit to tenants who were in the right place at the right time. Lower discounts would almost certainly have reduced sales but capital receipts from each sale would have been higher and more justifiable to taxpayers and others. Steve Wilcox's financial evaluation of RTB in the *UK Housing Review 2006* concluded that average discounts in excess of 35 per cent would be likely to impose net long-term costs on the public sector, while average discounts below 30 per cent would be likely to deter sales and represented reasonable value for money. On this basis discounts only represented value for money between 2004/5 and 2011/12.

Figure 11.4 **Average market values, discounts and capital receipts for local authority RTB Sales, England 1998-2020**



Source: DLUHC Live tables on social housing sales, Table 682.

Changing tenures: longer term effects

The RTB contributed to the growth of owner-occupation in all parts of the UK after 1979. But although three million tenants bought their homes, not all of these remained owner-occupied and RTB's longer-term impacts are affected by resales of properties and market adjustments.[12]

Owner-occupation

The RTB offered unprecedented incentives and a privileged route into owner-occupation, largely sheltered from market processes and prices. Transfer of properties and tenants through RTB changed the geography of owner-occupation with the greatest increases in Scotland and Northern England and single-tenure council estates. It also increased numbers of owner-occupied flats and leasehold properties. Increased sales of flats after 1986 exposed a poor understanding of leaseholders' rights and obligations in England and Wales. Owner-occupiers' disputes and complaints about service charges and bills for major works, especially in multi-storey blocks, drove government to introduce special measures in 1995 and legislation subsequently allowed the Secretary of State to require landlords to reduce or waive service charges for repair and improvement work. Leaseholder complaints continued to arise, especially when work to meet the Decent Homes Standard or under regeneration schemes raised service charges. Similar issues arose in Scotland especially in multi-storey blocks and related to the factoring system. Recent problems with fire safety and inappropriate cladding further highlight the failure to anticipate and then protect owner-occupiers in non-traditionally built dwellings.

Early RTB purchasers were typically longstanding, more affluent tenants who valued their home and neighbourhood and had no intention of moving. They included many tenants, especially in low-priced areas, who could have bought on the open market. In later phases of RTB, younger tenant purchasers with shorter tenancy histories and with less attachment to their homes were more evident. Although there was a greater income mix, they were still skewed towards households in skilled jobs and it is difficult to sustain an argument that RTB worked for low- rather than middle-income households. RTB purchasers included low-income households but were more mixed in income and social class than marginal owners who bought older, low-priced, inner-city properties, at least in the Midlands and North of England.[13] Family Expenditure Survey[14] data also indicate that, despite the RTB, the lowest three income deciles were less likely to be owner-occupiers in 1991 than in 1980; whilst the proportion of middle-income groups in owner-occupation had increased. Dismantling public housing through RTB strengthened the role of owner-occupation in housing middle- and higher-income groups and strengthened the relationship between housing tenure and income.

On resale, most former council dwellings, which were larger and better equipped and maintained than private sector dwellings of a similar age or older, commanded higher prices than properties at the bottom of the existing owner-occupied market. Rather than widening access to owner-occupation they extended the choice for households that could already buy. In England, 51 per cent of early RTB resales were to existing owner-occupiers (48 per cent in the North, 47 per cent in the Midlands/ South West and 58 per cent in the South).[15]

Private Renting

The RTB ultimately failed to sustain the higher level of owner-occupation that it promoted. RTB inflated demand for owner-occupation by reducing entry prices through discounts. But on resale, with no equivalent subsidies available, former council houses were not all bought by owner-occupiers. Buy to let purchasers were able to pay more and often to obtain mortgages more easily. Some properties, after temporarily housing owner-occupiers, became part of a deregulated PRS that neither matched household aspirations nor politicians' commitments to owner-occupation. Precise quantification remains difficult as the evidence is inadequate and geographical variation considerable. However, a cautious estimate is that, by 2021, up to 40 per cent (1.1 million) of RTB properties had become private tenancies in the UK and this figure may increase as more resales of RTB properties are completed. The highest rates of private renting appear to be where demand is high (e.g. student and city-centre neighbourhoods) and where leasehold and other properties are less attractive to owner-occupiers especially if mortgages are difficult to obtain.

The private letting of RTB properties affected the management of neighbourhoods by changing their demographics and dynamics and altering demand and delivery of various services. The shift from paternalistic, often controlling, council management to a 'mixed' regime associated with private landlordism affected properties and estates. Resale to private landlords relaxed controls on multiple occupation, exposed tenants to greater insecurity and higher rents, and risked poorer management and maintenance. Higher private sector rents placed greater demands on housing benefit and public expenditure than if the same households rented from social landlords. Average weekly awards for deregulated tenancies in the private rented sector were over £30 per week (over £1,500 per annum) higher than in the council sector in 2019. The estimated long-term, additional social security costs following transfer of 40 per cent of RTB sales to the privately rented sector would be over £1.5 billion each year, if they were all occupied by tenants entitled to housing benefit, and over £750 million each year if half of them were (see Compendium Table 108).

Council and social renting

There was considerable social mix among council tenants in 1980 but in a shrinking council sector the combination of exit through RTB and new lettings reduced the proportion of tenants from upper- and middle-income groups. In the absence of significant new building the departure of more affluent tenants to become owner-occupiers through the RTB speeded the established trend for council housing to increasingly house vulnerable and low-income households. The ageing council sector that remained after RTB sales also included more non-traditional dwellings and was more concentrated in less attractive urban estates. Tenure mix resulting from RTB did not change populations or estates immediately, but market processes increased differentiation and segregation. At the extremes there were less popular estates and properties with social housing alongside easy access, insecure, private lettings and with high population turnover, concentrations of disadvantaged households and fragmented management; and in contrast 'gentrified' estates that included high-price owner-occupied housing, mainly accessed by affluent households.

The reduced supply of council housing and high cost of resales had significant impacts where the council sector had always been small and very high percentages were sold. This particularly applied in smaller settlements and rural areas where council housing had been critical in providing good quality, low-rent housing for lower-paid households with local work and family connections. Some of these areas were also affected by high demand from retirement and other migration, second homes and holiday lets. Without a supply of council lettings many newly forming households, which could not afford to buy, were unable to access housing locally or were limited to accommodation that failed to meet their needs.

Neighbourhoods and house condition

RTB enabled some tenants to become owners but long-term tenure change and how dwellings and estates were managed and maintained were determined by the vagaries of the market and by owners with different attitudes. The evidence on these issues remains sparse: RTB sales were higher amongst more popular property types and estates, but were not limited to these – there were eventually some sales in almost all council estates. There is little doubt that owners in popular, high-demand estates maintain and improve properties. But in areas affected by low demand and fragmented ownership some dwellings are less well maintained and managed than previously, become progressively less attractive to live in and, in time, will need remedial action. Although some councils have responded by acquiring sold properties they are unable to do so on any scale and mixed ownerships, with some owners reluctant or unable to invest, could present a new urban renewal challenge.

Housing need and stock replacement

The most contentious aspect of the RTB has been the failure to replace sold properties. Early warnings of the effects of the loss of social lettings and the need for sustained investment in council housing were ignored.[16] The RTB also directly inhibited new council house building, irrespective of local housing market pressures. In England the housing minister stated in 1987: 'Do we really want the state to build new saleable houses, which it will then sell at a discount?'[17] Discussion of stock replacement was complicated because RTB did not immediately reduce relets – tenancies would not have ended if tenants had not bought. This affected the short- and medium-term impact of RTB but in the long term it is indisputable that every dwelling sold involves one or more lost relets.

The neglect of stock replacement or modernisation (including improved energy efficiency in an ageing council stock) represented a conscious choice to defund public housing. Housing investment was reduced and most capital receipts from RTB repaid debt or reverted to the Treasury, with limited amounts retained for reinvestment locally. Capital receipts were greater than expected. Before 1980, building societies were cautious about lending for council house purchase; most mortgages for discretionary sales came from local authorities and capital receipts, through repayment of principal, were generated slowly. But higher discounts made the risks very low for building societies and their increased capacity, before and after deregulation, enabled them (and later the banks) to become the main RTB lenders. In England private sector loans increased from financing 41 per cent of RTB sales in 1981/82, to 93 per cent in 1987/88. Public sector debt was quickly transferred to the private sector, providing government with 'windfall' capital receipts.

In the 40 years from 1980, capital receipts from the RTB across Great Britain exceeded £48 billion (see Compendium Table 61). In England alone the value of local authority and housing association RTB sales between 1998/9 and 2019/20 exceeded £49 billion, generating £29 billion capital receipts and with more than £20 billion disbursed through discounts as incentives to purchasers. There remain concerns about fraud and the role of third parties in animating RTB purchases[18] and the scale of incentives raises questions about equity and proportionality and whether resources could have been better used, for example in improving quality and energy efficiency in other parts of the housing stock.

Conclusions

The RTB played a significant contributory role in reshaping housing access and housing tenure. Owner-occupation declined from its peak in the UK (69 per cent in 2002) but, in 2020, remained well above 1981 levels (64 per cent compared with 58 per cent); and with the greatest growth of owner-occupation in Scotland (from 36 per cent in 1981 to 62 per cent in 2020) there has been convergence between the countries of the UK (see Compendium Table 17b). These changes and some two million properties that remain owner-occupied following RTB purchase represent successes in terms of the original policy aims: but facilitating the expansion of insecure, higher-cost private renting does not. How RTB properties were absorbed into the market was inconsistent with the expressed rationale for the policy: expansion of owner-occupation partly mutated into a shift to unregulated private renting. Over time the RTB became less inclusive and short-term public expenditure gains gave way to long-term increases in benefit payments with no expectation that properties would be well managed or maintained.

RTB operated in a period when housing public expenditure declined sharply, public sector house building fell to its lowest peacetime levels and the private sector failed to build enough to fill the gap. Increasing income inequality, fluctuating interest rates and rising house prices also affected housing provision and affordability. Forty years on, the cumulative effects of RTB interact with other policies and developments and the short-term impacts of more recent RTB sales add to the long-term effects of higher sales in earlier phases. The long-term issues arising from these early phases of policy also relate to two life-cycle factors. First, early tenant purchasers were mostly employed with sufficient incomes to support mortgages and/or used savings, redundancy payments and family transfers to buy; but 30 years later the households that remained were older, often retired, with incomes that were insufficient to maintain or repair properties and without the inclination or opportunity (where property values were low) to move. Secondly, RTB properties that were almost all in good repair when sold, deteriorated over 30 years (as did early 'improvements') unless they were well maintained. Some properties needed modernisation to meet the Decent Homes Standard achieved by neighbouring council/social rented properties. These two factors operated in tandem – as in other parts of the owner-occupied market.

Their impact was also affected by local market circumstances, household movement, resale through the market and the decisions of new owners. Whilst some one million of the three million UK RTB sales have or will become privately rented, the other two million remain owner-occupied. Because RTB properties have not formed the 'bottom rung' of the housing 'ladder' there has been increased choice for households already able to obtain a mortgage and buy a property. In many attractive, high-priced, rural and seaside locations these represent increased choices for commuters and people moving in retirement rather than local, low-income households. The ways in which local housing markets have adjusted following RTB will therefore differ by place. Of the two million RTB properties remaining in the owner-occupied sector it is likely that at least 50 per cent are now beyond the reach of low-income or marginal owner-occupiers.

For other households – those unable to obtain mortgages or buy properties – the long-term consequences of RTB and the failure to adopt policies to mitigate its effects have been very serious. It has reduced access to good quality housing within the public/social rented sector and has increased dependence on insecure private renting and benefits – with greater difficulty in breaking out of benefit-dependency. The RTB delivered short-term gains to individuals but played a part in defunding housing provision. Overall, the policy represented a failure in strategic thinking and contributed to long-term problems of housing supply, condition, security and costs, inefficient use of subsidy and increased social segregation. The most cost-effective way to provide long-term housing for low-income households remains through subsidising social landlords to enable them to charge rents below market levels. This is cheaper than paying housing benefit on a market rent, reduces dependency on benefits, improves work incentives and, therefore, increases the prospect of breaking out of benefit.

Recognising these longer-term needs largely explains the decisions to abolish the RTB in Scotland and Wales and the changes proposed in Northern Ireland. But the issues are not resolved simply by halting further RTB sales. Abolition of the RTB may make it worthwhile for local authorities to build or acquire properties but active local policies are needed to address wider issues of housing access, security, condition, energy efficiency and costs and to develop strategies to reinvest in housing for lower-income households in all tenures. These issues are, however, becoming particularly acute in England and will become worse until RTB is abolished or curtailed and there are effective, funded commitments to make more substantial investment in low-cost rented housing.

The failure of RTB sales to recover in England after 2011 indicates that the policy has run out of steam. Furthermore, there is no longer any coherent rationale for the current pattern of entitlement to RTB. In contrast to 1980, RTB in England applies in 2022 to a minority of tenants – a declining cohort of stock transfer tenants with the preserved RTB, and tenants of councils with retained stock (currently 161 out of 309 local authorities). The National Audit Office's criticisms of the impact assessments made of proposals to change the RTB in England since 2010 were not followed by more robust or more detailed analyses.[19] There is no up-to-date evidence to enable long-term evaluation of RTB policy in different regional, sub-regional and local contexts. The evidence suggests that discounts are disproportionately high and there has been a lost opportunity to reinvest in housing. Right to buy has become a strategic failure in England and, unless reconsidered, the policy will continue to generate uneven spatial and social impacts, contributing to social disadvantage and exacerbating inequalities.

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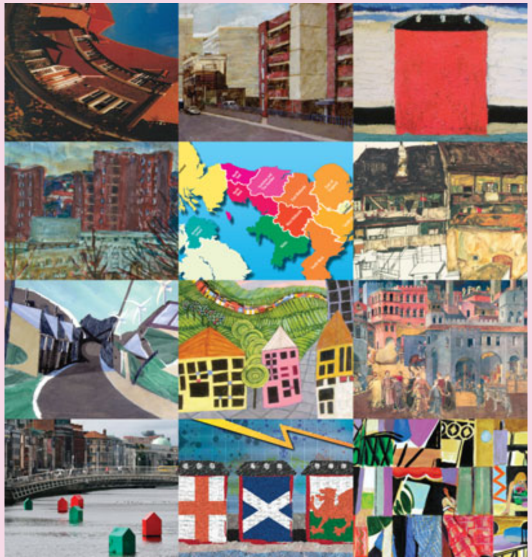
Part 3 Housing Tenures and Support



Chapter 12

Another turn of the screw: the further effects of 'welfare reform'

Steve Wilcox

UK Housing Review 2017

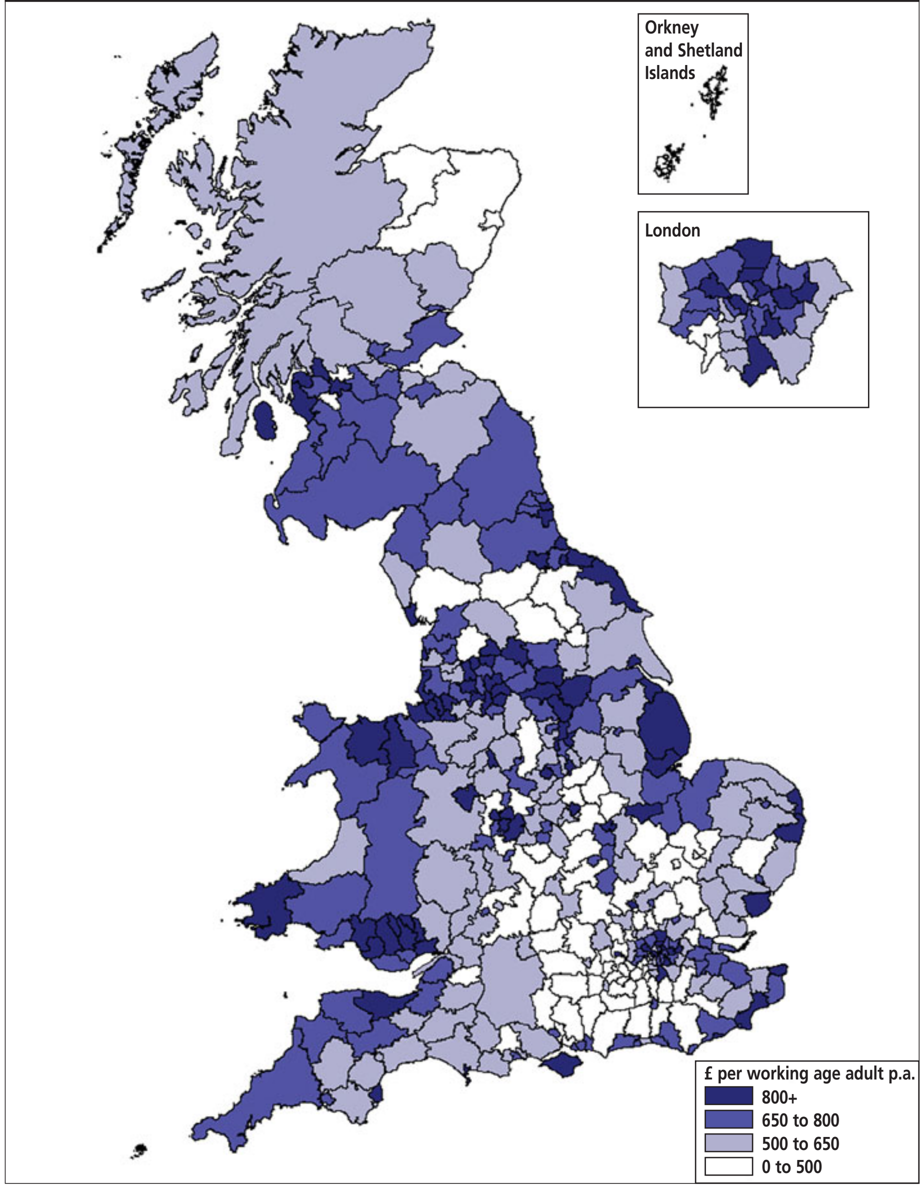
The coalition and conservative governments have introduced a raft of welfare reforms over the last five years, many of which have direct implications for lower income households and their capacity to secure or retain accommodation in all sectors of the housing market. In this chapter we examine each of the key measures in turn, covering both the earlier reforms introduced by the coalition, and the subsequent ones from the (pre- and post-Brexit) Conservative governments. The focus is initially on the more recent evidence on the impacts of the earlier wave of reforms, and then on the potential impact and characteristics of the reforms that have either just been implemented or are now planned. (N.B. This chapter covers the early stages of welfare reform: subsequent changes are discussed in Commentary Chapter 6 of each year's edition of the *Review*.)

Overall context

Before examining the individual measures it is appropriate to set the scene with a wider view on their potential combined effects. Research by Sheffield Hallam University has estimated that the total annual losses to low-income households will, by 2020/21, amount to £27.4 billion across Great Britain.[1] Within that figure, the individual welfare changes vary significantly in their economic and spatial impact. The areas most affected are mainly to be found in the older industrial areas of England, in the more deprived parts of London or among the least prosperous seaside towns. This spatial analysis (see Figure 12.1) makes the point that the incidence of benefit dependency is strongly related to regional economic and labour market structures and policies, and cannot be seen (or dealt with) through a narrow focus on work incentives and individuals' attitudes to labour market participation.[2]

But it should be noted that the Sheffield Hallam report was compiled before the 2016 Autumn Statement, which abandoned plans both to reform personal independence payments and to introduce the 'pay to stay' for higher-income council tenants. It also made proposals to ease slightly the cuts to universal credit. In total these three policy changes were estimated to reduce the government's overall welfare savings by some £2 billion by 2020/21. However, this will still leave in place coalition and Conservative government reforms resulting in losses to claimants that will total £25.3 billion by that year.

Figure 12.1 **Spatial impact of welfare reforms**



Source: The uneven impact of welfare reform, Sheffield Hallam University 2016.

Welfare reforms are also primarily focused on working-age households, while almost without exception provisions for older households have been preserved. Analysis of the coalition government tax and welfare changes also shows that the negative impacts were disproportionately focused on lower-income households, with an eight per cent reduction in the incomes of those in the lowest-income decile, compared to an average of just two per cent for those in the upper half of the income distribution.[3]

This is happening in a context where poverty levels for working-age households are running much higher than in the years before the global financial crisis (GFC). This partly reflects the decline in disposable incomes immediately following the GFC, but also the more gradual impact of the growth of the private rented sector with its higher rent levels.[4] Thus for the last six years (to 2014/15) the numbers of working-age adults whose after-housing-costs incomes are 60 per cent (or more) below the (median) average have been running at close to eight million; this compares with around 6.5 million in the seven years to 2001/02.[5] Given the welfare and tax reforms now in train, it can only be expected that poverty levels will increase in the years ahead, notwithstanding the government's above-inflation increases in the minimum wage.

Against this background, the individual welfare reforms discussed in turn below are:

- local housing allowance for private tenants
- local housing allowance for social tenants
- the 'bedroom tax'
- discretionary housing payments
- the benefit cap
- universal credit.

Alongside each of these specific welfare policy reform areas there is a more general freeze on most working-age benefit rates for four years from 2016/17. This single measure was forecast to impact on nearly eight million households or individuals by 2020/21, each of which will incur an average loss of some £500 a year.[6] This is by far the largest item financially of the welfare measures announced in the 2015 Autumn Statement and was expected to save the government just over £4 billion a year by 2020/21.

Local housing allowance for private tenants

Changes to local housing allowance (LHA) for private tenants led the way in the welfare reform agenda, and have applied to all new claimants since April 2011 and to all existing claimants for a period of almost 2-3 years, depending on their circumstances. The key initial changes were to set LHA rates based on 30th percentile market levels, rather than market medians, and to set maximum caps that further reduced LHA rates in inner London. While in 2013/14 those LHA rates were uprated by the lower of either inflation (CPI) or changes in market rents, subsequently in 2014/15 and 2015/16 they were uprated by just one per cent. (N.B. LHA rates were then frozen until 2020/21, then restored to the 30th percentile rent level, then frozen again.)

Administrative data on LHA claims is now available for the period to August 2016. Nationally, these show that the number of LHA claimants continued to rise after March 2011 but at a much slower rate than in the five years prior to the LHA reforms. However, more recently, numbers have begun to fall. In Great Britain as a whole the numbers of private tenants in receipt of housing benefit rose from 1,545,860 in March 2011 to 1,680,308 in May 2013, before falling back to 1,613,520 by August 2014, 1,526,914 by August 2015 and 1,434,250 by August 2016. As a consequence the numbers of HB claimants in the private rented sector are now lower than when the LHA reforms were introduced in 2011.

While the working through of the lower LHA rates, and the further downward drift of LHA rates through CPI uprating, will each have contributed to the decline in LHA claimant numbers between May 2013 and August 2016, other factors are also involved. Of particular note is the gradual rolling out of the universal credit (UC) regime. While in August 2014 there were only just over 10,000 people in receipt of UC, by August 2015 numbers had risen to just over 100,000 and by August 2016 to 350,000. Unfortunately very little detail is available about the characteristics of those claiming UC, although it is known that to date they are predominantly single people. There are, however, no data on the tenure of UC claimants, and, unless remedied, this failure will be an increasing restriction on the ability to review the impact of LHA rates in the years ahead.

Bearing in mind that limitation, the data still clearly show that the policy has, as intended, limited the ability of households to access the PRS in inner London, where the LHA rates for many areas have been restricted by the maximum national caps. The decline has been sharpest in those areas of central London affected by the caps on maximum LHA rates, with declines of some 35-40 per cent in Kensington and Chelsea and in Westminster between March 2011 and August 2015.[7] A further factor is that, since 2013, the wider benefit cap has limited the capacity of out-of-work households to obtain or sustain a tenancy in the PRS in high value areas (see below).

There has also been a substantial decline in the numbers of younger, single households in receipt of HB, following the extension of the shared accommodation rate (SAR) to single people aged 25-34. Between December 2011 and August 2014, numbers of single people under 35 in receipt of HB in the PRS in Great Britain fell by some 55,000 (27 per cent). Again the roll-out of UC, and the lack of available data on UC claimants, make it impossible to use the administrative data to judge how far the subsequent falls in the numbers of young single HB recipients in the PRS are a consequence of the low SAR levels or of the roll-out of UC. However the data do clearly show the marked impact of the SAR policy in the period before August 2014, and this is supported by research by Crisis.[8]

Local housing allowance for social tenants

Following the 2016 Autumn Statement, plans to introduce LHA caps on housing benefit levels in the social rented sector have changed (N.B. these plans were to have been introduced in 2019 but were subsequently abandoned). There are very considerable concerns about these proposals, however, particularly in respect of supported housing schemes. They will also have a wider impact in those parts of the country where there is no great difference between levels of social and private sector rents. And because the LHA rates are based on the number of bedrooms a household is deemed to require, rather than the size of the dwelling, there is also a potential impact on 'under-occupying' retired households that are not currently covered by the bedroom tax.

For supported housing schemes it is now proposed that while the LHA caps will apply, some additional funding will be devolved to local authorities so that they can make decisions about how to assist vulnerable people who need support. Detailed arrangements are now subject to consultation.[9] There are considerable concerns about how the changes might affect existing schemes as well as deterring the development of new ones.

The 'bedroom tax'

Limits on the eligible rents for households in the social rented sector were also introduced in April 2013, based on the number of bedrooms the households are deemed to require. These were based on size criteria essentially derived from the social survey 'bedroom standard' measure established in the 1960s. Officially these have been designated as the 'spare room subsidy' limits, but they are now generally known as the 'bedroom tax', the terminology used here. A discussion of the context in which the bedroom tax was introduced can be found in earlier editions of the *Review*.[10]

The May 2013 figures showed initially just under 560,000 households subject to the size criteria limits across Great Britain (adjusting for initial under-reporting). By August 2014 the numbers of tenants subject to the reductions had fallen by 16 per cent to some 472,000. In the two years to August 2016 they fell by a further 11 per cent to some 422,500. This is a net reduction in the numbers affected, with changes in household circumstances leading to some tenants becoming newly subject to the tax each month (e.g. when a child ceases to be a dependent), at the same time as other households cease to be subject to it (e.g. for age reasons).

Early analyses of the impact of the scheme found that of the households ceasing to be subject to the tax only a very small proportion moved into smaller accommodation, predominantly in the social rented sector. They confirmed that the majority of those affected did not consider themselves to be 'over-accommodated,'[11] which is not surprising given that the 'bedroom standard' on which the bedroom tax is based is out of touch with contemporary social values and practice.

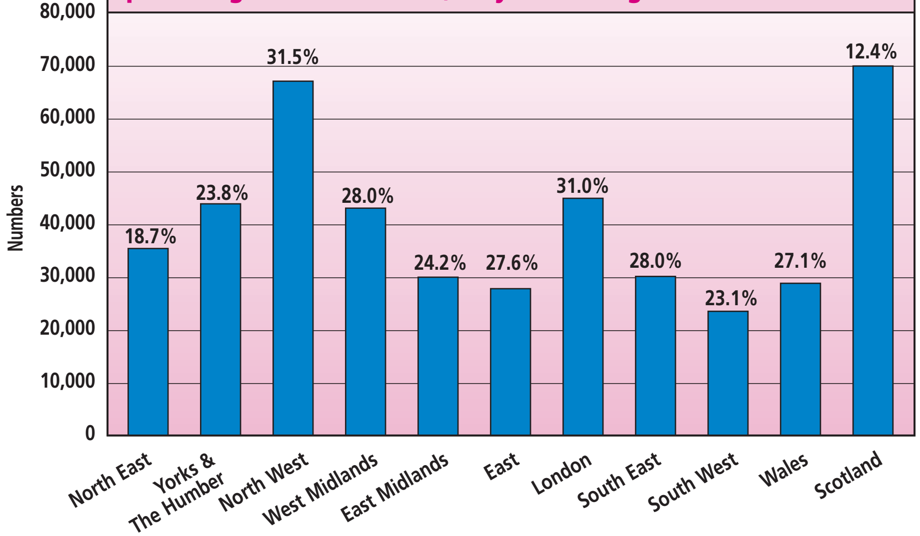
The tightness of the size criteria inevitably resulted in a host of concerns about the circumstances in which additional bedrooms were needed, whether for disability or other medical reasons, or for carers of children of separated or divorced parents in circumstances wider than those recognised by the criteria. Despite two recent Supreme Court judgements which made clear that in some circumstances disabled households do require an additional room, and that this cannot be left to be dealt with by discretionary housing payments, the criteria are still very narrow.[12] This is aggravated by the assumption that any bedroom can be shared by two children, regardless of its size or the age of the children.

A broader concern about the application of the size criteria is that in many areas there is a shortage of smaller social sector dwellings available for 'downsizing' transfers. DCLG data show some 20,000 social sector tenants transferred in 2013/14 either in response to the benefit cap or the bedroom tax – just four per cent of those impacted by the two measures. In 2014/15 transfers fell to some 12,000 and in 2015/16 numbers dropped again to a little below 8,000.[13]

Under-supply of smaller dwellings is more frequently found in parts of northern England, where there is a structural mismatch between the size of social sector dwellings and what households are deemed to require under the bedroom tax size criteria. In those areas, 'under-occupation' as defined by the size criteria has been supported by social landlords as a means of balancing the supply and demand for their larger dwellings.

The regional dimension of the impacts of the policy is reflected in the distribution of the affected households across Great Britain, with particularly high numbers in the North West of England, as shown in Figure 12.2. The figure also shows the extent to which numbers have fallen over the period from May 2013 to August 2016, with above average rates of reduction in London and the South East where there are more opportunities for landlords to make 'downsizing' transfers and greater labour-market opportunities for tenants. The lowest rate of reduction in England has been in the North East, which of all the English regions has the lowest proportion of one-bedroom dwellings in its social rented stock.[14]

Figure 12.2 **Claimants impacted by the bedroom tax and percentage fall in numbers, May 2013 - August 2016**



Source: DWP Housing Benefit Statistics, November 2016.

However by far the lowest rate of reduction has been in Scotland, which also has low proportions of one-bedroom dwellings, but where the more significant factor is the substantial funding provided by the Scottish Government to supplement the provision of discretionary housing payments (DHPs – see further below).

A landlord survey undertaken for DWP found that after a year, half of the affected tenants were making rent payments in full, two-fifths were making good some part of the shortfall, while just one in ten were not making any payments to cover the shortfall.[15] It also found that three-fifths were reducing spending on household essentials, while one in four had borrowed money, mainly from family or friends, to help manage the shortfall and nearly three in ten had made claims for DHPs (see below).

While these early surveys found problematic levels of rent arrears, at the time they were undertaken they had not led to significant levels of legal action or evictions.

However, while other factors (and other welfare reforms) are involved, there was a clear and marked increase in the numbers of social landlord possession actions from the third quarter of 2013 onwards. Total social landlord possession orders in England were 17 per cent higher in the twelve months following the introduction of the bedroom tax, compared to the year before, although they did then fall back again in 2014/15 and 2015/16.[16]

Discretionary housing payments

Limited budgets for discretionary housing payments (DHPs) have been made available to LAs to assist households affected by welfare reform, but as is inevitably the case with such discretionary provisions, they are difficult to administer, their application is patchy, and in the past budgets have often been underspent.[17]

However, while data for 2013/14 showed that overall DHP budgets in the year were still being slightly underspent, this was rarely the case with the sums specifically provided to ease the impact of the bedroom tax. In total, English authorities spent 94 per cent of their DHP allocations, while those in Wales spent 106 per cent and in Scotland 176 per cent of their allocations.[18] Welsh and – to a much greater extent – Scottish councils were supported in this by additional funding provided by their respective governments.

By 2014/15 English authorities were spending 99.5 per cent of their DHP allocations, while in Wales the equivalent was 104 per cent. Following a substantial further increase in funding from the Scottish Government, councils there spent more than three times their DHP allocations in that year – just over £50 million against allocations of just over £15 million.[19]

In 2015/16 English authorities again increased their proportionate spend, to 102 per cent, including additional self-funded amounts by some authorities. Meanwhile, spending by Welsh councils eased back to 99 per cent of allocations; but once again Scottish councils with their government's support continued to spend more than three times their allocation from the DWP – just over £49 million against an allocation of £13.3 million. Nonetheless within that overall picture, while 121 English and Welsh councils spent beyond their DHP allocation, more did not make full use of it. Indeed 83 councils spent less than ninety per cent, including 30 that spent less than three-fifths of their allocation.[20]

In England and Wales 44 per cent of total DHP spend in 2013/14 was committed to bedroom tax cases, including households with disabled people living in specifically adapted accommodation. This is far more than the specific finance provided by DWP, and clearly many councils use their discretion to apply more funds to such cases and as a result have less for other ones, such as LHA and benefit-cap related cases, a pattern repeated in subsequent years.

While in 2015/16 the spend on bedroom tax cases in England and Wales was still 46 per cent of total DHP spend, actual spending reflected the cut in the overall DHP allocation from £165 million in 2014/15 to just £125 million in 2015/16. With the very substantial support provided by the Scottish Government, explicitly intended to mitigate the bedroom tax in full, this measure accounted for almost 90 per cent of the total DHP spend by Scottish councils.

Within this broader picture there are continuing concerns about a minority of councils failing to make (more or less) full use of their allocations, and about some councils taking disability living allowance awards into account when making the income assessments for DHP eligibility. As a result they are denying DHPs to some disabled households living in specifically adapted accommodation.[21]

The overall DWP budget for DHPs in 2016/17 was increased to £150 million, but this is in the context of the further cuts to welfare benefits announced in the 2015 Summer Budget and Autumn Statement, and in particular the freezing of LHA rates and the lowering of the maximum benefit cap.

The benefit cap

The overall cap on welfare benefits was introduced in four local authorities in April 2013 and then rolled out on a phased basis, so that since the end of September 2013 it operates across the whole of Great Britain. The cap – set at

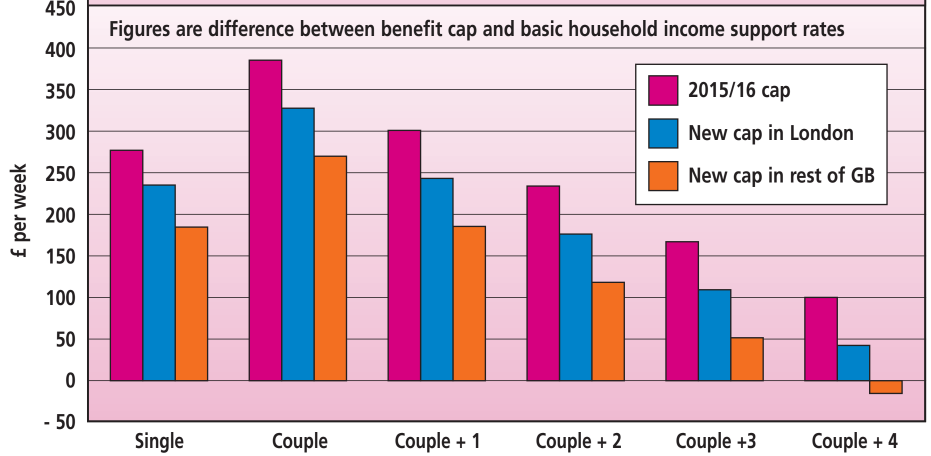
£350 per week for single people and £500 for all other households – applies to out-of-work households below pensionable age, with a number of exemptions for households with disabled people.

Numbers impacted fluctuate slightly from month to month, but peaked at 28,434 in December 2013; by August 2016 the numbers had eased down to 20,041.[22] Changes of circumstances have seen continuous monthly flows of households into and out of the benefit cap. In total, some 59,400 households had been subject to the cap at some point, but were no longer capped in August 2016. Of those some two-fifths ceased to be affected as they were in work, and had an open working tax credit claim. However, it is not clear how far the benefit cap, in itself, has contributed towards the movement into work of households affected by it, as changes in circumstances and moves in and out of often insecure and low-paid employment are an established pattern for many low-income households.[23]

As anticipated, the effect of the benefit cap so far has been greatest in London, due to its higher level of housing costs, and for larger families. Of all the households impacted at some time up to August 2016 close to half were in London (44 per cent); over a half had four or more children (55 per cent) and over a fifth (22 per cent) had three children. Total spend on DHPs related to the benefit cap in 2015/16 was £14 million – well below the £25 million nominally allocated to mitigate this measure by DWP (see above).

However since November 2016 the new government has reduced the benefit cap to £23,000 in London, and £20,000 throughout the rest of Great Britain (N.B. now at £25,323 and £22,020 respectively). These lower caps mean that couples with three children, as well as those with four or more children, will not be able to obtain housing benefit even for an average social sector rent, whether in London or elsewhere (see Figure 12.3). The DWP impact assessment suggests that for Great Britain as a whole the numbers affected by the cap will increase fivefold to some 115,000, and that three-quarters of those newly affected will be outside London.[24]

Figure 12.3 **Tightening of the maximum benefit cap (maximum benefit available to meet housing costs)**



Source: Author calculation.

Recent analysis by CIH of the effects of the benefit cap concludes that:[25]

- 116,000 families with between 1-4 children are affected
- of those, nearly 60 per cent are in the social sector
- in London the cap even affects 6,000 one-child households
- even in the cheapest parts of the country, the North East and Wales, over 12,000 1-4 child families are affected.

Universal credit

The universal credit (UC) regime combines several existing benefits, including housing benefit, and aims to radically simplify the structure of welfare benefits in the UK. A full account of the structural reforms is found in earlier editions of the *Review*.

The new regime is now operational nationally for single-person claimants, but is only starting to be rolled out in a small number of areas for couples and families. The overall timetable for rolling out the new regime was substantially – and repeatedly – deferred from the original plans, not least due to difficulties in developing the IT system for a still complex scheme, where the detailed regulations and operational requirements were not finalised until quite recently. Poor management and lack of cost controls have been criticised in reports from the National Audit Office.[26]

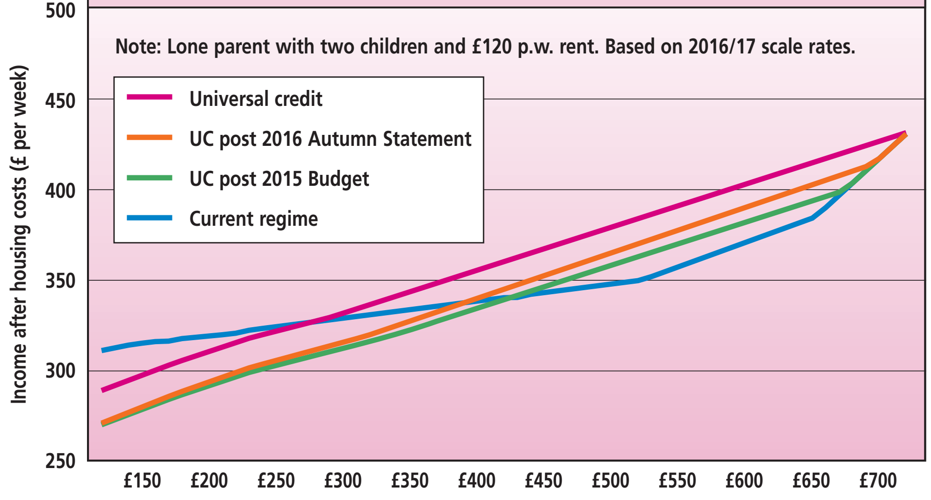
It is still the case that the great majority of current UC claimants are single people. Even now UC is only available for new claims by couples and families with children in just over 125 Jobcentre areas.[27] In theory the roll-out for all new claimants is due to be completed by September 2018, with existing claimants being switched over to UC between 2019 and 2022.

Concerns about the impact of UC on rent arrears have been reinforced by the experiences of the social landlords involved in the DWP direct payment demonstration projects. Over the eighteen months of the programme, average rent payment rates across the projects were estimated to be 5.5 per cent lower than would have been the case without direct payments.[28] While rates of underpayment declined over the course of the projects, under-payments were also erratic and difficult to predict (and therefore manage), reflecting the complexities and challenges of unforeseen circumstances on low-income households' budgets.

While the original UC regime would not in itself have involved any further reduction in benefit levels, it would have still involved gainers and losers relative to the current regimes, albeit that existing claimants would be provided with transitional protection.[29] However the potential work-incentive credentials of UC have been undermined by the reforms announced in the Summer 2015 Budget. These involved, alongside other changes, a reduction in the permitted earnings levels before working claimants begin to be subject to a 'tapered' reduction in their entitlement.

While the pre-Brexit Conservative government backtracked on its proposals for tax credit cuts in the 2015 Autumn Statement, it confirmed that the cuts to UC allowances would go ahead. The lower UC 'work allowances' came into effect in April 2016. The higher child allowance for a first child within UC will be removed

Figure 12.4 **Impact of universal credit reforms on total net income after housing costs**



Source: Author calculation.

from April 2017. The 2016 Autumn Statement partly offset those cuts by reducing the UC taper rate from 65 per cent to 63 per cent (also from April 2017), but this will only have a marginal impact for households in lower-paid employment, as illustrated in Figure 12.4 which shows the case of a lone parent with two children.

As can be seen, for those earning less than £260 a week even the initial UC scheme would have left them worse off when compared to the existing tax credit and housing benefit system. But with the cuts to UC they would have been left worse off unless they earned more than £400 per week. With the lower taper rate announced in the 2016 Autumn Statement this is now the case unless they earn more than £370 per week.

The disadvantages are much less pronounced for couples with children but it is also the case that the lower taper rate does little to offset the impact of the cuts to the UC allowances that will remain in place. A couple with two children would have been better off under the original UC regime (compared to housing benefit), provided that they earned over £150 per week – but with the lower work allowances partly offset by the lower taper rate they will need to earn over £210 per week to be better off under the revised plans for UC.

The failure to include council tax benefit within universal credit, and the difficulties and complexities of the various replacement schemes in England, also detract from the simplification and incentive objectives of the scheme.

Scotland, Wales and Northern Ireland

Welfare reforms have, in varying degrees, operated rather differently in Scotland, Wales and Northern Ireland. The differences in Wales have been rather modest. Effectively it has retained the old council tax benefit scheme, and thus avoided the complications with the variety of cut down 'council support schemes' now operating in England. In its first year the Welsh Government also provided an additional £1 million for DHP expenditure by councils in mitigation of the bedroom tax.[30]

The differences in Scotland have been rather greater. It has followed through from the substantial sums it provided for DHPs to mitigate the bedroom tax (see above), and has now been granted limited additional devolved powers over welfare policy which it is committed to using to effectively nullify the bedroom tax. As in Wales, it has also continued with its existing council tax benefit scheme. It also plans to make universal credit payments available twice monthly (rather than monthly) and to make direct payments of the housing element within UC to social and private landlords.[31] However, looking ahead, the Scottish Government is seeking wider powers over welfare policy, going beyond the limited powers that were granted following the close call in the Scottish independence referendum.

By far the greatest differences, however, have been in Northern Ireland, which has long had fully devolved powers over welfare policy, albeit in a context where they are tied to a concordat with the UK government that required them to self-finance any policy variations. In practice, at least until recently, the Northern Ireland Executive did more or less automatically follow the Great Britain policy lead, although it has continued to make direct payments of housing benefit to private landlords.

However, Northern Ireland's government was unable for some time to reach agreement either on implementing many of the Whitehall welfare reforms or on how to fund any differences. After prolonged negotiations a deal was struck under which the benefit cap, the bedroom tax and other welfare reforms will be introduced in Northern Ireland, but with HM Treasury providing a substantial additional budget to enable Northern Ireland to fully mitigate the bedroom tax, and to substantially mitigate or modify at least some of the other reforms.[32]

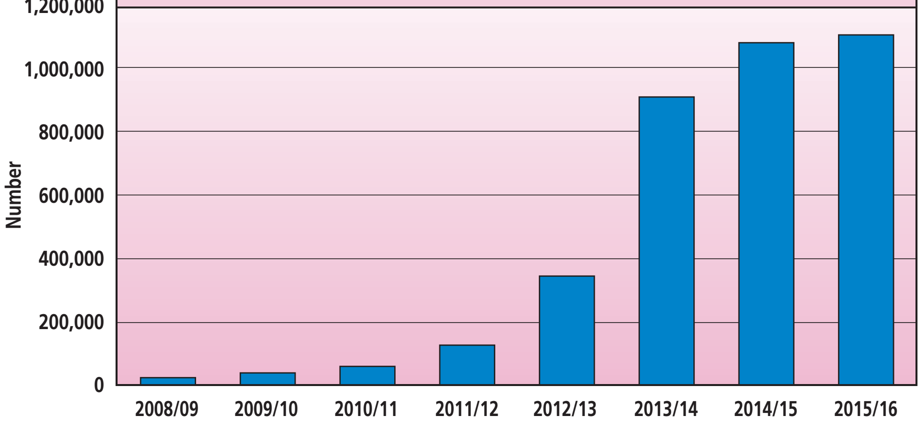
The mitigation budget was set at £135 million in 2016/17, and at £150 million a year for the following three years. Following that deal the NI Executive set up a working group under the leadership of Professor Eileen Evason to bring forward welfare mitigation proposals within that budget limit. The working group reported early in 2016 and recommended that, in addition to the full mitigation of the bedroom tax, there should also be full mitigation of the benefit cap over the four years of the deal. It also made a number of other recommendations relating to universal credit, personal independence payments, benefits sanctions and other areas.[33] In the main these recommendations have been agreed although some are still under consideration.

The extent of the devolved governments' differences in welfare policy, and the Scottish desire for further devolution, are an indication of the way in which UK welfare policy has moved away from consensus. (N.B. There have been several further policy changes by the devolved governments since this section was written.)

Conclusion

This chapter does not attempt, in the space available, to cover every element of the government welfare reform agenda. For a discussion of the council support schemes in England, and the impact of benefit sanctions, see the 2016 edition of the *Review*. Both these schemes add further to the pressures on the budgets of lower-income households. One indication of the financial pressures is the sharp rise in the use of the emergency foodbanks operated by the Trussel Trust, as shown in Figure 12.5.

Figure 12.5 **Three-day emergency food supplies provided in each year**



Source : The Trussel Trust.

The vulnerability of low-income working-age households, that are the focus for the various welfare reforms, is further underlined by their low levels of savings, and proportionately high levels of arrears in one or more bills. In 2014/15 over five million working-age adults in the lowest-income quintile (the lowest fifth) had no savings. Moreover 1.5 million were in arrears on one of more of their bills – comprising just over half of all working-age adults with arrears.[34]

If the various welfare reforms all press down on the incomes available to households in and out of low-paid work, in some cases they also have a direct negative impact on their capacity to secure or keep a home. It is clearly important to keep these impacts under review – and in that context the failure to provide information on the housing and other characteristics of universal credit claimants is a major shortcoming. It detracts from the otherwise relatively good record of DWP in providing data on claimants' circumstances.

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Part 4 Housing Finance

Chapter 13

Funding housing associations: changing models for changing times?

Peter Williams, Piers Williamson and
Samuel Marlow-Stevens

UK Housing Review 2020

Readers of the *UK Housing Review* over the last two decades or more will be familiar with the case repeatedly made for a stronger government commitment to funding higher levels of social rented housebuilding. The call for more government support has perhaps overshadowed the fundamental changes that have taken place in the same period in the core funding models operated by housing associations across the UK. In the main the adjustments have been driven by the need to secure more funding at a cost and on terms commensurate with delivering social and now affordable housing. In so doing we have seen an evolution in the funding market itself, in terms of who provides funding and how, and that process continues. This chapter provides an overview and assessment of the observed changes. Although the detail is about English associations the agenda it covers is UK-wide.

In the beginning

The story is broadly one of a 'long march' from the late 1980s, leaving behind a predominantly grant-led framework[1] and arriving at a mixed-funding regime comprising reduced grant alongside private finance.[2]

It is worth remembering that in 1981 the social sector provided around a third of all housing in the UK; local authorities were still the dominant providers with 29 per cent of the total UK housing stock while associations had just two per cent (see Compendium Table 17). The social sector was of course a bigger proportion in Scotland with 54 per cent in total and in Northern Ireland with 39 per cent. However, local authority borrowing counted as public sector borrowing and was thus subject to Treasury cash limits. Associations were not bound in the same way and could borrow freely, a distinction seized upon by the Conservative government with the passing of the Housing Act 1988, and a fact now accepted by all political parties. The new legislation paved the way for reduced grant rates while at the same time allowing associations to access private finance and set their own rents to cover costs up to market levels.[3]

Crucially, this was underpinned by the continued provision of housing benefit. In a debate on housing association rents in January 1991, housing minister Sir George Young responded to a question from the shadow minister Clive Soley, as follows (Hansard, 1991):

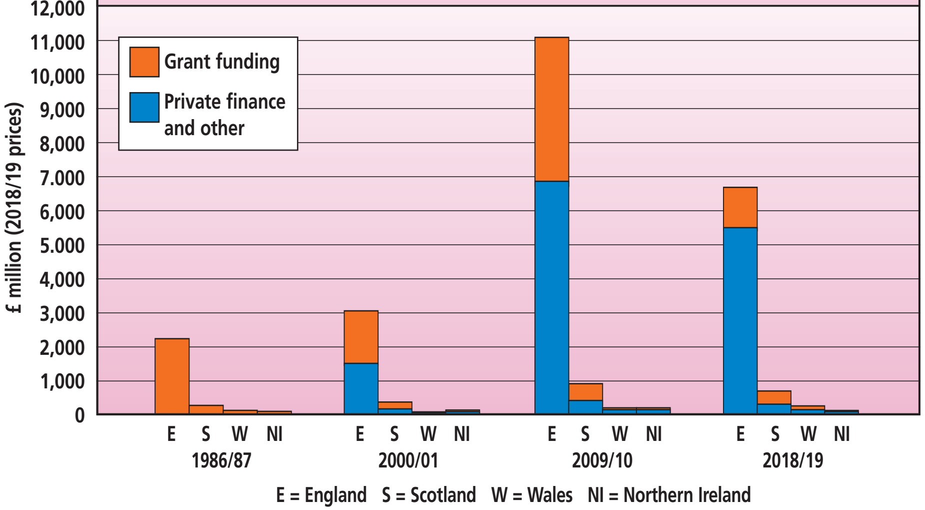
> *I do not accept the premise on which the hon. Gentleman based his question. Housing benefit will underpin market rents[4] – we have made that absolutely clear. If people cannot afford to pay that market rent, housing benefit will take the strain.... I repeat that the housing benefit system exists to enable people to pay their rent. There can be no question of people losing their homes because they cannot afford to pay reasonable rents.*

The Housing Corporation (HC) was founded in 1964 to oversee a mix of cost-rent and co-ownership societies plus a mix of other associations and trusts in what was still a small niche in housing policy and provision.[5] The 'sector' typically worked through local authorities with varying degrees of success and enthusiasm on both sides. At this point the government was providing 100 per cent development finance through the Public Works Loan Board with a focus on cost-rent schemes, though in practice co-ownership schemes found more favour, not least because building societies were also willing to provide funding. The Housing Act 1974 introduced the registration of housing associations and provision of housing association grant (HAG), aimed at bridging the gap between development costs and 'fair rents.'

Private finance

As noted earlier, experiments with private finance had begun in the 1970s, stimulated not least by cutbacks in public expenditure after the 1976 IMF intervention in the UK. From 1985 onwards, part of the development programme was devoted to schemes where HAG was fixed at 30 per cent, aided by free land, index-linked finance and revenue grants to keep rents low. By 1988/9 some 80 different funders had been approached by the HC and the new era of private finance was truly underway. Private finance for the whole of Great Britain totalled only £33 million in the year 1987/88. At today's prices, by 1997/8 it reached £1.8 billion, peaked at almost £8 billion in 2009/10 and, forty years from inception, was £6 billion in 2018/19. By that same year total drawn facilities stood at £77 billion in England and £6 billion in Scotland; in 2017/18 they stood at £3.4 billion in Wales and £1 billion in Northern Ireland. Figure 13.1 gives the broad picture of how housing association finance has evolved by showing total investment and how it was financed (by grant funding or by private finance or other funding sources), for selective years.

Figure 13.1 **Gross UK housing association investment by country – real terms**



Source: Compendium Table 60.

The mixed funding model took off, and by 1989/90 some 69 per cent of the English social rental programme was mixed-funded (alongside 100 per cent of shared ownership), with an average grant rate of 75 per cent. Throughout the 1990s grant levels were eroded and there was increased reliance on private finance and housing benefit: the number (and percentage) of housing association tenants in receipt of benefit rose from 320,000 (and 54 per cent) in 1988 to 1,752,000 (70 per cent) in 2018. This contributed in part to an ever-greater emphasis on mergers and the search for cost reductions in these larger organisations.

LSVT organisations turned to 'high street' lenders for private finance in this period. While conventional HAs continued to use secured-mortgage finance, usually with multiple creditors lending on generally similar terms, LSVT organisations operated on a model closer to project finance, with stock secured to a single bank to achieve long-term, low fixed-rate debt to fund the improvement work to the stock that was their initial priority.

The significance of stock transfer in the growth of the sector

Over 200 large scale voluntary transfer (LSVT) associations were established, with stock holdings exceeding those of the traditional housing association sector, some financed by the Estates Renewal Challenge Fund. Over 40 per cent of those set up as independent associations have subsequently established or joined together with others to form group structure arrangements.

By 2007, over half of the transfer associations operating as subsidiaries (over a quarter of all transfer HAs) were members of groups which also involved traditional (non-transfer) associations. Such mergers widened association's geographic base and scope as well as bringing new land and financial capacity.[6]

See Compendium Table 68 for details of transfers in England up to the present day.

Pioneered by The Housing Finance Corporation, 1998 marked the entry of the European Investment Bank (EIB) into the UK social housing finance sector. By 2018 it had lent more than £4 billion to UK social housing. The EIB provided almost half of the £3.2 billion of funding under the last Affordable Homes Guarantee Scheme through £1.5 billion of long-dated loans and has begun to embark on direct deals with housing associations, with around £1 billion of deals so far in both England and Scotland.

Underlying business models

Until two decades ago most but not all associations were solely focussed on the provision of rental housing. A small but significant minority also provided shared ownership, which gave them access to a regular stream of capital receipts from first-tranche sales along with uplifted values when the shared owners 'staircased out' into full ownership. This in turn reduced reliance on long-term debt. These two relatively simple models dominated the housing association landscape up to the early 2000s.

The surge in merger activity in England following the 1988 Act and LSVT initiatives was repeated after 2004 when sector restructuring was triggered by reforms which concentrated development funding on the 70 or so 'best developing associations' under the Investment Partnering procurement initiative. Subsequently we have seen a number of 'mega' mergers between large associations e.g. the 2016 mergers between L&Q and East Thames, and between Affinity Sutton and Circle to form two 'FTSE 100-sized behemoths'[7] as well as mergers between medium-sized associations recognising the need for scale. There were 42 mergers between housing associations in England in 2018, and a total of 171 such deals in the five years from 2013; a clear indication of the intensity of activity on this front.[8] Alongside mergers (and group structures) we have seen other forms of collaboration e.g. joint ventures, procurement consortia, shared services and private/public partnerships, all of which can increase development capacity, secure cost savings and in theory at least reduce risk.[9]

The 2007/08 Global Financial Crisis (GFC) had particular significance for the funding of the housing association sector across the UK. The aftermath saw a rapid shift away from what had been a well-established market for long-term bank debt, as well as further cuts to grant funding and welfare support. As banks sought to reduce loan terms and renegotiate existing lending there was a progressive shift back towards bond finance, including private placements and retail bonds (and in a small minority of cases unsecured debt). To illustrate the scale of the switch, in total since 2008 there have been approximately 140 public bond finance issues (N.B. until 2019), compared to an average of one or two per year before 2008.[10]

With a renewed focus on building as the 'housing crisis' took political form and importance, the government developed the 2013 Affordable Homes Guarantee Scheme to stimulate housing association activity through guaranteed bond-financed loans. As this suggests, bond issuance dominated the post-crisis landscape, but by 2013 shorter-term bank debt was back in first place at around 60 per cent of total new funding in the year. By mid-2019 roughly £100 billion of private finance (drawn and undrawn) was in place in England, £61 billion of which was bank debt and £37 billion from the capital markets. Private finance enabled housing associations to weather the post-crisis years, leading to Greg Clark, then Secretary of State for Communities and Local Government praising the sector for its 'keep calm and carry on' attitude.[11]

Yet the shift in the funding base and the grant regime naturally impacted business models and treasury management. Associations recognised that there was considerably more uncertainty in their markets than had perhaps been appreciated. This led to rethinking about business models and their reliance upon grant or bank debt. Over time we have seen more associations building up their activity in the shared-ownership market and most recently in the private sales and rental markets so as to meet what were seen as legitimate needs, as well as diversifying their business model. The shift from first grant and then rental subsidy to cross-subsidy through development of market-sale properties became notable in this period. Some associations have gone further, moving into other areas such as care provision, employment initiatives and housebuilding. This type of activity has increased over the years albeit with variable outcomes in terms of profitability. In addition, as the *Review* has chronicled, we have seen the rise in provision of homes at Affordable Rents whether as new build or conversion from the existing stock.

In 2014 in England non-core social housing activity[12] increased by 25 per cent to £2.3 billion with 34 social landlords generating a fifth of their turnover from this area. In 2018 income from non-social housing and shared ownership increased to £4.75 billion for the period, up over ten per cent on the year. Cross-subsidy had become a very important component of overall funding capacity. However, this model itself is now coming under pressure, partly because of the slow-down in prices and transactions, and rising costs.[13] The 2015-2019 rent cuts, coupled with the shift in the rental uplift basis from RPI+ to CPI linked, added another layer of constraint, especially given that housing association rents are a key assumption for long-term lenders to the sector. Data from the RSH in England shows on a net basis that grant is rising slightly, from seven per cent of total development costs in 2017 to 11 per cent in 2019; sales income and cross-subsidy make up 60 per cent of the total in 2017 and 50 per cent in 2019. Debt makes up the difference. If the flow of subsidy from sales is reduced, housing associations may have to reduce output. Indeed, the new liabilities emerging around leaseholders and landlords in terms of upgrade costs to apartment blocks following the Grenfell fire are now generating very considerable new pressures. (N.B. There have been further significant changes since this was written.)

Although every effort is being made to expand output, it can be argued that the underlying capacity of the housing association sector to build new homes (especially some of the larger associations on which so much depends) has the potential to weaken as a consequence not just of reduced grant but also because of reduced cross-subsidy income and increased borrowing. This can result in higher gearing and reducing interest cover. The evidence does suggest that slowly more associations will be edging towards practical limits as the scale of borrowing begins to outstrip the generation of assets and income which would normally compensate for that.[14] Clearly this will not be a universal truth – much will depend upon individual expansion plans, borrowings and reserves. However, it is still fundamentally a debt-funded market and, with constrained grant, borrowing stands at the heart of the business.

And now?

Housing associations now have significant assets in the form of their housing stock and alongside this a substantial rental and sales income (see Compendium Table 71). They are substantial businesses. The 2018/19 global accounts for England show that the value of their assets increased by £7.9 billion to £164.1 billion. This includes £150.8 billion of social housing properties for rent, £6.2 billion of investment properties (e.g. market rent) and £7.1 billion of properties held for sale.[15]

Little wonder then that the sector and indeed the business streams it represents have attracted ever more attention from the private sector.[16] As a recent Savills report on private money and affordable housing comments:[17]

> *The affordable housing sector has the same favourable long-term structural demand drivers, liability matching return characteristics, potential for growth and insulation from volatility that has drawn investors to other residential sub-sectors. It also offers the best opportunity for social impact and long-term investors are increasingly looking for ethical opportunities.*

Private investors have begun to buy into housing association shared ownership, as well as buying into the associations and then leasing the properties back.

For-profit registered providers (FPRPs) were first permitted by the Housing and Regeneration Act 2008 and the first was registered in 2010. By 2019, 46 FPRPs provided data to the Regulator of Social Housing, holding in total around 6,000 homes (of which about 45 per cent were shared-ownership). To date most FPRPs have acquired homes through section 106 agreements, leading to concerns that they are bidding up prices. Major players such as Legal and General have entered the market with a FPRP and the Blackstone equity fund-owned Sage has set an ambition to provide 20,000 homes. To date most of the management has been outsourced – mainly to existing housing associations. In addition, a small number have bought into supported housing – buying up homes and then leasing them back to associations. A recent regulatory report exposed failures of governance and conflicts of interest which suggest this might be a more problematic investment than first appeared.[18] The RSH's intervention caused the share price of real estate investment trusts linked to the social housing sector to fall. At present for-profit associations do not operate in Scotland, Wales or Northern Ireland.

As the squeeze on the resources of not-for-profit providers continues so the pressure to unlock some of their existing capacity may grow, e.g. from the sale of shared-ownership portfolios, thus giving further momentum to the FPRP sector. (N.B. See next chapter for more on the FPRP sector.)

Where next?

The result of the 2019 general election provided a hitherto absent degree of political certainty. The new government appears committed to homeownership as the heart of its housing policy, much like the Cameron administration. Notwithstanding the recently recorded small increases in homeownership bolstered by Help to Buy, the tenure now stands at levels comparable to the early eighties while the mainstream PRS market has largely been built around homes acquired from other tenures (rather than new build). Although new supply has increased overall, it is the shortage of affordable homes in all sectors that is most evident: thus the search for new sources of funding.[19] Little wonder that we have seen the emergence of homelessness as a key political issue and with continued low revenue support to local authorities, highly subsided areas like homelessness services became increasingly difficult to sustain.

Since the Grenfell fire there has been ever-greater recognition of the urgent need for and the spiralling costs of remedial fire-safety works across the sector. This looks set to be a growing factor in the financial appraisal of housing associations, and together with homelessness has highlighted once more the question of whether grant levels are adequate given the sector's attempts to both develop new homes and provide for existing tenants.

A new Affordable Homes Guarantee Scheme is due to arrive in 2020, cementing government-guaranteed bond-financed loans as a fixture of housing association funding for the foreseeable future. With no increase in grant on the horizon,[20] the potential arrival of the long-mooted shared-ownership 'right to buy' and the coming rise in housing association rents after four years of reductions (rising by CPI plus one per cent for five years in England, with different rules applying in the other UK countries), it seems evident that the government's approach to the sector will perpetuate the mixed-funding model. This follows on from all post-2010 governments who have emphasised 'building and selling' as the future of the sector, with the added benefit of private finance not counting as public sector borrowing. (N.B. See the 2023 edition of the *Review* for updated information on these issues.)

Having said that, it is clear that private equity in one form or another is likely to play an ever-bigger part in the picture. It was recently announced that both L&Q and Hyde are exploring bringing more private equity into their commercial subsidiaries and strategic partnerships. Homes England has also moved closer to such arrangements alongside building its relationships with the private sector, e.g. having its own housing delivery fund in partnership with Barclays.[21]

In the wider world there is a new investment focus on environmental, social and governance (ESG) criteria related to climate change, innovation and social purpose. Evidence of ESG activity is now seen as vital to understanding corporate purpose, strategy and the management quality of companies and this has become a key assessment marker for investors to the extent that around a quarter of the world's professionally-managed investment funds now only invest in companies that demonstrate solid ESG credentials.

Whether the sector's ESG performance could attract new investors and investments which in turn might impact the cost of private finance is unclear at this stage. However, with decarbonisation targets for homes looming, along with the current need for fire-safety works, there is much to highlight to investors. With continued pressure on budgets, ESG-related finance possibly has the potential to become an important feature of the future market.[22] Perhaps even more radically there would seem to be a recognition that vehicles that blend for-profit and not-for-profit sectors will emerge over time. The fact that large groups such as Places for People consist of 20 companies operating towards a common goal is indicative of what future models will look like.

Conclusions

As with all financial structures and business models there has been evolution over time. The housing association sector is focused on long-term arrangements that must cope with the economic cycle and not expose its tenants and residents to the risks that the cycle might generate. As the sector has moved forward since the 1980s so its exposure to the market has increased, not least through ever more mixed-funded and cross-subsidy arrangements. As the sector has matured, grant has diminished but its asset base has also grown, providing greater capacity to engineer new solutions. Overall, mixed funding is likely to remain the core model over the next decade, but for some of those who are increasing their gearing it may become a growing constraint, which in turn will require new solutions. All the evidence suggests that private equity will be one of those solutions.

Notes and references

1 At around 85% grant; see Lomax, G. (1996) 'Financing social housing in the United Kingdom', in *Housing Policy Debate*, 6(4), 849-865. For the purposes of this article we are setting aside earlier models, including the model dwelling and charitable trusts such as the Metropolitan Association for Improving the Dwellings of the Industrious Classes founded in 1841, the Peabody Donation Fund in 1862 and the Guinness Trust in 1890. The model dwelling organisations relied on raising share capital and loan stock from private investors expecting a rate of return. Charitable trusts were funded by rich individuals and probably accepted a slightly lower rate of return from the endowments they made.

2 For an overview, see Heywood, A. (2016) *Investing in affordable housing: an analysis of the affordable housing sector*. London: THFC; Williams, P. and Whitehead, C. (2015) 'Financing affordable social housing in the UK: building upon success', in *Housing Finance International*, Summer 2015, pp.14-19; Garnett, D. & Perry, J. (2005) *Housing Finance*. Coventry: CIH, Chapter 14.

3 There had been some 'experiments' with private finance in England and Wales in the preceding years which indicated there was appetite/ capacity in the private market to provide funding in a variety of forms, e.g. senior debt, index-linked bonds, guarantees. The first scheme was in 1986 at St Mellons in Wales where the Halifax provided funding and Cardiff City Council land and infrastructure, while Abbey National funded North British HA to buy 3,200 ex-GLC homes; the Housing Finance Corporation was launched to provide a permanent vehicle for raising such funds.

4 Rent allowances covered rents of benefit recipients in both the housing association and private rented sectors.

5 For an excellent and detailed account of the history of that body and the housing association movement over the period to 2008 when the HC was replaced by the Homes and Communities Agency, see Murie, A. (2008) *Moving Homes: The Housing Corporation 1964-2008*. London: Methuen.

6 Pawson, H. & Mullins, D. (2010) *After Council Housing: Britian's new social landlords*. Basingstoke: Palgrave Macmillan; Bortel, G. *et al* (2010) 'Change for the Better?'-Making sense of housing association mergers in the Netherlands and England,' in *Journal of Housing and the Built Environment* 25(3), 353-374.

7 See Morrison, N. & Szumilo, N. (2017) *Empire building? Analysing the drivers towards mega-mergers in the English housing association sector*, European Real Estate Society conference 28 June – 1 July 2017, Delft University.

8 See for example the merger of Radian and Yarlington (www.socialhousing.co.uk/news/merger-unlocks-100m-capacity-as-associations-tap-into-embedded-value-64163).

9 See Scanlon, K., Whitehead, C. and Le Blanc, F. (2017) *The future social housing provider*. Norwich: Flagship Group.

10 See www.lexisnexis.co.uk/blog/docs/default-source/loan-ranger-documents/jibfl_2019_vol34_issue1_jan_pp15-18.pdf

11 In a speech (2015) to Placeshapers, a HA network (see www.gov.uk/government/speeches/housing-associations-and-housebuilding).

12 Non-core is made up of diverse activities. Though the majority of this turnover comes from housing, e.g. building for sale, shared ownership, student accommodation and properties let at intermediate rents, a small part is also derived from rent of commercial property, including garages, and activities such as electricity generation, nursing care and facilities management.

13 At a recent conference on *Homes for Londoners* both the Mayor of London and the L&Q group director for development and sales described the cross-subsidy model as 'not working' and 'absolutely bust.' However, it is noted in the Regulator of Social Housing's April-June 2019 Quarterly Survey that despite challenging conditions 'the sector intends to pursue the cross-subsidy model at an increased scale in the next 12 to 18 months' (see www.gov.uk/government/collections/quarterly-survey-of-private-registered-providers).

14 See Wharfedale Associates (2016) *G15 Capital Structure and Gearing Study*, White Series #3 (originally from https://www.wharfedaleassociates.com – article no longer available).

15 See Regulator of Social Housing (2019) *Global accounts of private registered providers* (www.gov.uk/government/publications/2019-global-accounts-of-private-registered-providers). The English market is the most diversified in terms of income streams and least reliant upon grant: Compendium Table 71 gives details. For equivalent discussions in Wales, Northern Ireland and Scotland see: Community Housing Cymru (2019) *The 2018 Financial Statements of Welsh Housing Associations*. Cardiff: CHC; Northern Ireland Federation of Housing Associations (2019) *Sector Global Accounts*. Belfast: PWC and NIFHA; Scottish Housing Regulator (2019) *Summary of the findings of our analysis of RSL loan portfolio returns at 31 March 2019*. Glasgow: SHR.

16 See Riddy, A. (2018) 'Investment funds have found a new cash cow: social housing,' in *New Statesman*, 9 March.

17 Savills(2019) *Private Money and Affordable Housing*, Spotlight (see www.savills.co.uk/research_articles/229130/293448-0/spotlight—private-money-and-affordable-housing).

18 Regulator of Social Housing (2019) *Lease-based providers of specialised supported housing: Addendum to the Sector Risk Profile 2018*. London: RSH.

19 For a discussion of ideas, see Gibb, K. (2016) *Funding new social and affordable housing: Ideas, evidence and options*, CaCHE Social Housing Working Group Paper 05. Glasgow: University of Glasgow.

20 In an answer in the House of Commons on 13 January the Secretary of State commented 'In our manifesto, we said that we would create a successor to the affordable homes programme that is at least as generous.'

21 Original article no longer available; see also IPF (2015) *Prospects for Institutional Investment in Social Housing*, (www.ipf.org.uk/resourceLibrary/prospects-for-institutional-investment-in-social-housing--february-2015-major-report.html).

22 See the recent *Social Housing* interview with Hyde CEO, Peter Denton (see www.socialhousing.co.uk/insight/insight/hyde-ceo-physical-stock-is-the-biggest-challenge-facing-sector-64674).

Part 4 Housing Finance

Chapter 14

Private finance for affordable housing investment: from debt to equity

Steve Partridge

UK Housing Review 2023

The last few years have seen a rapid growth in the deployment of equity investment into affordable housing in England. In contrast to the established sources of finance from debt or bond investors who provide funds for new development on a secured basis, equity investors provide and retain an equity stake in the new homes. Equity investment in affordable housing is potentially attractive to pension and insurance funds. This chapter explores the issues around the changing nature of private finance and the prospects for a significant boost to the sector in the form of equity investment. It aims to explain how different types and different sources of capital can be best used in delivering new affordable housing.

The needs of pension and insurance funds

There have been many attempts to define the basis and terms on which we might envisage investment at scale from pension and insurance funds in affordable housing. These have ranged from a focus on the stable, secure, low-risk, asset-backed nature of the investment, through to pension funds having some form of 'responsibility' to invest in affordable housing in their local areas. After all, for pension funds the fundamentals should all align: the funds exist for the long-term, so do the homes; the funds have millions of pensioners (some of whom might also want/need affordable homes) and therefore the money to invest; they are seeking inflation-hedged investments of a low-risk nature to match off against the inflation-linked liabilities in many defined-benefit pension schemes and, by investing in affordable housing, they would undoubtedly be contributing to the social good.

It feels like we have been talking about levering in pension-fund investment for well over a decade. And we are still talking about it now: witness the recent push from government to get local authority pension funds to invest in 'levelling up' in their local areas.[1] Leaving aside the challenges associated with that initiative, is any progress being made?

There has been talk of a 'wall of money' waiting to find the right assets for long-term, low-risk investment. We hear more and more about environment, social and governance (ESG) investing[2] – and how institutional investors worldwide are seeking this type of investment to prove their credentials in terms of social responsibility. One might be forgiven for thinking that we are still talking about it rather than doing it – and in many ways there is so much further still to go.

However, it is undoubtedly the case that investors have begun to make their moves, and there are several ways in which we can judge that equity investment from pension and insurance funds is rapidly becoming not only the 'next big thing' but possibly even the major basis through which future generations of new affordable homes will be financed. Moreover, despite initial scepticism from housing associations and local authorities, there are definite signs that the 'traditional' social housing sector is responding positively to the opportunities that this scale of funding potentially brings.

A brief history of housing association private finance

Until the mid-1980s, all social housing was supported by public or charitable funding. Delivery was almost exclusively through local authority direct provision of council housing. Many small housing associations (HAs) had also been created, in most cases to fill gaps unfilled by council housing (for example, specialist provision for specific groups of people).

Housing legislation during the 1980s introduced private finance at scale into the housing association sector for the first time, where HAs would borrow alongside capital grant provided by central government. Banks and building societies lent on favourable rates (relatively low margins) over long terms (typically 25 years) to HAs, building up the best part of £55 billion of investment in the period up to the global financial crisis (GFC) in 2008/09. The funding model fitted the operating model very well – net rental income covers debt costs over the long term, driven by indexed rent increases of at least RPI (now CPI).

The recapitalisation of high street banks post-GFC meant that access to cheap, long-term debt was restricted. In some cases, banks were 'underwater' (losing money) on much of their earlier lending and consequently wished to renegotiate loan portfolios with associations. As a consequence, HAs made much greater use of the capital markets for long-term funding. This has delivered around

£25 billion of funding to date, commencing with the large players (Places for People, L&Q) but now extending right across the sector to relatively small associations. The bond issuances are well-suited to the high-demand, long-term inflation-linked and stable nature of affordable housing. There has been a full range of tenors (the length of time over which bonds are issued) ranging from ten years to 40+ years, with sizes starting as little as £50 million up to £350 million and even larger. The market has matured significantly and the rates of interest that are paid on bonds are now extremely competitive. There are three principal reasons for this: first, investors are looking for the strong ESG credentials of the HA , and will reduce their return needs to reflect ESG; second, the HA sector has a high degree of 'income stability' (i.e. it is low risk) and third, there is a huge weight of capital wanting to invest which also helps drive rates down.

This is all relevant as bond issues introduced new types of investors to HAs, including many UK and overseas institutions and pension funds. Many have become familiar and comfortable with the features, risks and rewards of the sector, and the strong regulatory backdrop which provides comforts for investors and others. The Regulator of Social Housing (RSH) has not seen any association ever in default and has, to date, always found a suitable purchaser or merger option for those small number of HAs that have got into trouble. The same applies to equivalent regulators across the UK.

The regulated status, as well as the steady income stream of general needs, affordable housing rents, have generated a huge amount of interest from investors, which continues to build momentum. Particularly during periods of economic uncertainty and volatility, capital has flowed consistently into associations as investors have sought quality and safety. There are plenty of examples in recent months that highlight this peak in demand, these include Clarion's £50 million 2048 bond in 2021 which priced at 0.88 per cent over gilts and LiveWest's benchmark primary issue of £250 million 2056s, which priced at 0.90 per cent over gilts and was substantially oversubscribed.

We have reached the point where private finance dominates the funding of affordable housing, being much more significant than grant. While the position is different outside England, Commentary Chapter 4 points to an RSH estimate that grant covers only six per cent of the capital costs of all new affordable housing, while a recent National Audit Office report assesses grant as covering just 24 per cent of costs for grant-assisted schemes, with 46 per cent covered by debt.

Wider financing options and equity funding

The solid track record of bond and debt funding has naturally led investors and fund managers to consider their options for deployment of wider pools of capital. While debt funding is a solid investment, it is not generally index-linked and so there is work to do for investors to create the right basis to match index-linked pension liabilities, by converting fixed streams of income received from debt lent to the sector, into index-linked payments to pensioners.

In the last decade, investors have therefore also begun to focus on equity funding, making direct investment in affordable housing and unlocking the potential for genuinely inflation-hedged investment at scale. Investors initially focused primarily on leased property in which the covenant strengths of local authorities and HAs were the key to low-cost funding. In this type of funding, the investor passes all the risk on (for example) rent collection to the lessee, so that even if there is no rent collected, the lease payment is still payable – in this case, the financial strength of the LA or HA keeps the cost of funds low. The first long-term reversionary-lease deals, where the investor has a right to possession at a future date, were undertaken with HAs in the early 2010s and a small number of such deals have also been struck with local authorities.

However, partly due to reticence on the part of HAs and local authorities (where straightforward debt represents a cheap, familiar and less complex source of funding), and partly also through poor understanding of the products on offer, the amount of capital deployed through leases in the mainstream affordable sector has so far been limited. The RSH has also had cause to make compliance interventions relating to lease structures – most notably with Cosmopolitan a decade ago but more recently, and continuing, with very small providers in the specialist supported housing sector.

Nonetheless, in response to the lack of demand from counterparties and reflecting what were until recently historically low gilt yields, lease terms have improved and are now becoming more balanced in risk-sharing – with the funds taking a greater risk share – leading to a wider diversification of offers being made on all sorts of different terms. These developments have produced results, with more lease deals being completed: most recently, for example, with the London Boroughs of Bromley and Barking & Dagenham.[3] Yields remain competitive in the context of interest rates, gilts and other key global factors and despite recent adverse moves in the market.

The emergence of for-profit providers

The limited appetite for lease structures may have persuaded a number of investors and funds to set up their own for-profit registered provider (FPRP) structures and to directly own, fund and operate affordable housing – taking on the associated income and operating risks. And from 2018 onwards, FRPPs have emerged as the main engine for growth in equity investment.

Legal and General Affordable Homes, MAN Group's Habitare and M&G's RP exemplify the shift from being a lender to becoming an owner-operator. ReSi housing, Heylo and Sage Housing are all examples of leading new equity entrants now holding properties in FPRP entities. Other new equity entrants (such as CBRE IM) have not set up their own FPRP but work through lease structures with HA partners. There are currently 69 FPRPs registered with the RSH and a large number in the registration pipeline.

At the same time, bond issuances continue, and banks/building societies continue to lend actively to the HA sector. The availability of private investment across a range of these new, equity-related forms is however beginning to make a very significant contribution with an estimated £8 billion of equity in total now deployed over the last ten years, most of which occurred in the last 3-4 years.

The affordable housing sector has tended to use the catch-all phrase 'equity investment' to describe the new entrant capital that is available to deploy through leases and FPRPs. While this is a helpful term, it masks the wide range of types of equity and funds seeking looking to invest in affordable housing and how they differ from each other. As more funds deploy and leading early-mover FPFPs become more established, acquisitions and deal structures are evolving to produce a meaningful and plentiful supply of equity which is set to make a lasting impact on the sector.

What is in it for investors?

Even in a volatile economic world of higher inflation, higher interest rates and generally higher cost of capital, the relative status of 'affordable housing' as an investment class has not changed. These are the key motivators driving the appetite for this kind of investment:

- *Structural imbalance – persistent under-supply of homes – long-term government support*. Investors seek long-term investment models where there is a market imbalance to address over an extended period. Affordable housing is under-supplied, and the majority of income supporting its delivery (i.e. rents) is paid for from housing benefit or universal credit (i.e. the government). This is further emphasised by the underlying demographics – an ageing population, with new offers in older persons' housing, care and support, extra care, etc. being developed all the time.
- *Long-term, stable cash flows with indexation – provide an inflation hedge, leading to lower cost of capital*. Taken over a long timescale, liability matches to pension payouts; really secure, index-linked investments are rare in the market and affordable housing is one, therefore attracting the lowest costs of funds.
- *Exposure to residential real-estate market cycles through house-price inflation in shared ownership*. Another key factor is that the regulated affordable housing sector tends to come not only with long-term, secure rental income, but also increasingly offers shared ownership – which gives an even more secure RPI+ income stream from rents, with increasing comfort that staircasing proceeds can be reinvested quickly to maintain returns.
- *There is little correlation to other typical real-estate asset classes with rented tenures*. It is difficult to imagine anything less correlated than affordable housing compared to, say, retail and commercial investments. Relatively speaking, the housing sector will always be an attractive investment and changes brought on

by the Covid pandemic may well have emphasised the volatility of investment in other asset classes.

- *Robust ESG credentials*. HAs have positive attitudes towards addressing climate change and sustainability, with many already developing their longer-term net zero strategies and targeting step-change increases in energy efficiency. The social impact of affordable housing providers is beyond doubt. But the governance point is also critical – stable, independent boards of governance, clear accountability for delivery, backed by a strong regulatory framework. All the ESG factors are 'ticked'.

As none of these drivers are likely to change significantly soon, it is possible to say with some confidence that the appetite for equity investment in affordable housing will not diminish: quite the opposite, as more investment drives more returns, and more investors get interested and then get more comfortable with the sector. Appetite is likely to increase.

In fact, the ESG angle could be decisive in shaping investment behaviour going forward. We have already seen over 100 HAs sign-up to a voluntary *Sustainability Reporting Standard* on debt[4] and it is almost certain that the new market norm will be ESG-compliance, meaning that those that are not reporting on ESG might face higher costs of funds. But we are also seeing investors flexing their ESG muscles to influence investees – witness the recent action from groups of investors to put pressure on oil companies to take their climate-change strategies seriously.

Regulated affordable housing in England is well-placed to take up this investment. In turn, these factors are likely to drive a wider range of types of deal and more diversity in the kind of partnerships that are developed between investors, FPRPs and the 'traditional' HA and LA sectors.

Some of the developments around partnerships are explored in more detail below. Given the prevailing economic and inflationary context, and pressures on the existing asset base through building safety and preparing for net zero, it is possible that equity investment will, over time, become the dominant source of capital for new affordable housing development. Certainly, that is Legal & General's assessment[5] – and whilst we are definitely still in the early stages, there are plentiful reasons for thinking that this is the general, long-term trend.

Prospects in Scotland, Wales and Northern Ireland

The focus of new entrant investment has to date been in England, with a small number of deals in Scotland. Previous proposals for Wales have not yet come to fruition. The concentration on England has been driven by the scale of need and demand, and therefore the scale of the addressable market and the opportunity to deploy significant amounts of capital. But another reason might be the availability of opportunities to vary the business model and therefore the basis for investment. For example, the legislation allowing 'for-profit' providers has not been replicated in Wales or Scotland and no new RSLs have been registered in Scotland for more than ten years.

Therefore, the focus of the limited number of deals in Scotland has been on sub-market, affordable private renting, as opposed to investment in new forms of social housing. The promotion of 'mid-market' rents has been of particular interest to investors and the Scottish Government has generally been willing to support new forms of private capital, especially with the operation of guarantees. There is a history of supporting investment in the PRS via the Private Rented Sector Housing Guarantee and a recent consultation (Autumn 2022) on a Rental Income Guarantee Scheme.

In Wales, the government has tended to work closely with HAs and local authorities to lever in private finance via the existing landlord businesses, rather than to seek new approaches to lever in private finance directly. For Northern Ireland, the unique circumstances in which the Housing Executive operates as both a policy-directing, strategic body and as a landlord almost certainly makes the policy environment rather too complex and locally specific for investors to embrace readily. There may also be a question of scale of opportunity. This is not to say that investors are not interested, rather that it remains to be seen whether specific approaches in Scotland, Wales and Northern Ireland can bear fruit in bringing forward more affordable rented homes at scale.

Fund types

Whilst 'long income' and liability matching underpin investments in affordable housing, it is worth highlighting the different fund types and different investor types who seek different risk and return profiles – and this can also drive value for the sector. All types of fund are active in this market and some examples are given in the box.

Types of funds

- Long-income/ retirement and annuity funds – seeking long-dated, index-linked stabilised assets with as little interruption to returns as possible.
- Core/ Core plus funds – seeking investment over a medium term with the option kept open to hold for a long time or sell onto a long-income fund; this type of fund will be comfortable acquiring stabilised assets and in forward-funding new development (for example, section 106 acquisitions or development schemes).
- Value-add/ Opportunistic funds – as the name suggests, seeking additional returns over a generally short-to-medium-term period, seeking an exit by selling to a long-income or core fund; this type of fund will target forward-funding and new development, seeking higher returns from what is seen as a higher-risk investment.

Often the shorter the term, the more likely the fund will look to take on debt to help leverage the equity investment – in effect to make the equity work harder to drive increased returns. Investors can supplement equity funds by taking on additional debt – this gives the opportunity to acquire more properties for a given amount of equity. For value-add funds, we see leverage of up to 70 per cent, for long-income funds, it is equity only.

It is always the case that the higher the risk, the higher the required return. All types of capital seeking all levels of return have their place in this market and there is nothing inherently incompatible between value-add funds engaging in forward-funding of development at risk, then exiting to a long-income fund when everything is built, fully rented and hence stabilised. We will see this cycle play out in the next few years as these funds reach their set maturity dates.

But it is also critical to recognise that the ultimate investors (i.e. the sources of capital being invested into funds which are then invested in affordable housing and FPRPs) all tend to go back to pension funds and insurance funds. Pension-fund trustees would be expected to balance risk and return across their enormous portfolios – and that is precisely what we find: local authority pension funds, for example, will invest some money into value-add funds and some into long-income funds.

How do we expect to see the market grow?

Research undertaken by Savills in 2022 captured a 'point in time' in the evolution of the market and will be followed-up in 2023. Here are some key findings.

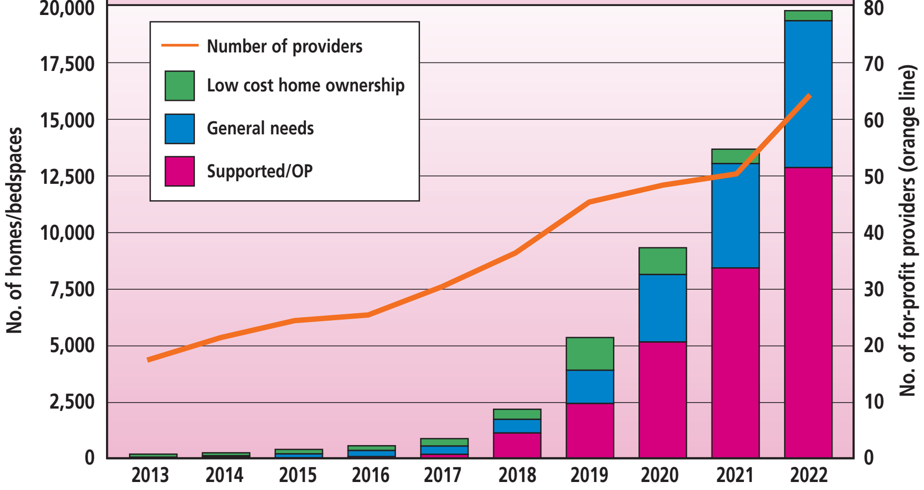
Growth in FPRPs.

There were 69 FPRPs at the end of 2022, of four broad types:

- *Developer-led:* 29, including large multi-national, national/multi-regional, local-SME FPRPs, split between those set up early to allow acquisition of affordable homes on site and those set up recently for delivery of a specific pipeline of developments – all ranging in size but focused on specific areas for growth.
- *Local authority and existing HA-owned:* 4, but numbers could be set to grow as existing larger HAs may seek to rationalise stock balance sheets and raise capital in partnership with investors and funds.
- *Specialist:* 10, a range of specialist providers including some care/support and some lease-based for temporary accommodation and other specialist accommodation.
- *Investor led:* 26, in practice, this covers a wide range, including ones that have grown in the last 3-4 years (Resi, Heylo, Sage, Legal & General Affordable Homes – which make up just less than half this total as some of these investors have multiple FPRP entities) and those that have been established but are yet to achieve scale (for example, M&G SO, Man Group's Habitare, Octopus's Newmarch, HSPG's Park Properties); there is a range of other funds with vehicles in place to take advantage of specific local opportunities (for example Williams Pears' MTD Housing, Matter Real Estate's shareholdings within St Arthur Homes and Auxesia Homes).

It is this small group of investor-led FPRPS that are driving real growth, in particular since 2018 (see Figure 14.1), with nearly 20,000 homes financed by about £8 billion of investment deployed or committed to date.

Figure 14.1 **Growth of types of for-profit providers in England**



Savills research, 2022.

Looking ahead

Reviewing plans for investment, we can expect to see growth to continue apace, with what Savills considers might be as much as £27 billion invested in around 140,000 homes by 2027 (Table 14.1). Likely key developments include these:

- Shared-ownership supply is expected to average 21,000 homes per year. Of FPRP stock in 2017, 20 per cent was low-cost homeownership; it rose to 66 per cent in 2022, and is forecast to be 63 per cent in 2027 as the grant focus may well shift back to affordable renting.
- Large providers (more than 500 homes) own 91 per cent of the existing FPRP stock but those same providers will only own 76 per cent of stock in 2027 as newer FPRPs catch up.
- Three FPRPs with no completed stock as of 2022 have plans to exceed 1,000 homes in the next five years.

Table 14.1 **Numbers and projected numbers of for-profit providers in England**

	2017	2021	2022	2027		
				Current FPRPs	Additional FPRPs	Total
No. of FPRPs	**31**	**51**	**64**	**64**	**c.25**	**c.90**
No. of homes	**873**	**13,671**	**19,600**	**111,400**	**c.30,000**	**c.141,000**
Capital (£billion)	**0.2**	**2.4**	**3.7**	**21.2**	**5.7**	**26.8**

Source: Savills research, 2022.

Put another way, if new investors and FPRPs are accounting for upwards of 25,000 new homes a year by 2027, that could represent nearly half of all affordable homes delivery by that time, raising substantially the output of homes for shared ownership. There might even be reasons for believing that this is an underestimate given the growing pressures on the traditional HA and LA sectors.

What might interrupt this progress?

Investment is driven by policy and financial stability as well as the under-supply of affordable homes. There have been some strong headwinds influencing progress since early 2022:

- *Inflation and economic volatility:* the normal low-inflation environment has been interrupted and this affects affordable housing specifically in the delivery of services to residents and, ultimately for investors, also flows through into the costs of funds. Whilst the relative position is unchanged vis-à-vis other investments, equity returns across the board have risen.
- *Interest rates:* those funds reliant on some measure of debt to make their investments work are likely to find themselves less competitive than they were until rates began to rise last year, which in turn is likely to have interrupted progress until debt terms can be realigned.

- *Policy instability:* changes in the Affordable Homes Programme 2021 caused some uncertainties (for example, shared-ownership schemes covering repairs costs for the first ten years, rent-to-shared-ownership options, minimum staircasing of one per cent). Investors will always point to a need to set quality standards and stick to them, but uncertainty has been caused by the cap on rent increases of seven per cent in England, together with the NHF-led voluntary cap on shared ownership rent increases, leading to below-inflation increases in income. Whilst seven per cent will be challenging for many social housing residents, net income does decrease in real terms, with the prospect of continued high inflation into the Autumn of 2023 potentially affecting rent increases for 2024 as well.

Funders and investors would like to see government and the regulator provide stability in rents policy, set out over the long term, so that investors and fund managers can plan over a timescale, take a view on current levels of volatility and thereby keep the cost of capital as low as possible.

Not separate sectors: what partnership offers

The FPRP sector is often seen as something completely distinct and separate from the 'traditional' not-for-profit sector. In many ways, the early days of new entrant investment may well have caught some HAs by surprise as a new source of competition came into the market. Certainly, the sector tended towards expressions of degrees of scepticism, particularly around what might have been perceptions of the motivations of investors, and whether affordable housing could meet what were (at that time and misleadingly) seen as higher return requirements.

As this chapter argues, however, times have changed, and whilst learning is still going on, there are very good reasons to expect that the social sector will embrace new forms of partnership with equity investors in the next few years. Some of the drivers have already been discussed: pressure on HA finances combined with a need to focus on the existing stock, the sheer volume of capital seeking deployment, the strong ESG characteristics of the sector. This latter is critical – every single one of the main movers from the investor community have partnered with traditional HAs for housing and property management – initially for management agreements but all part of the 'getting to know each other' dynamic.

For housing associations, equity investment offers the following:

- *Access to investment capital:* whilst lending from banks/building societies and bond issues will continue, the huge volume of capital available for equity investment is a key potential future source for HAs, who are in a good position to make a strong offer to investors (for example on ESG, and their ability to provide quality services).
- *Continue to grow operational platform:* by accessing capital from new sources, HAs may not necessarily be the owners of new build properties, but they will be able to utilise their established approaches to service delivery to continue to grow their service platform (i.e. the delivery of management and repairs services).
- *Maintain development expertise and output:* again, by accessing capital from new sources, HAs will be able to maintain and potentially grow their development teams to manage and deliver new developments, albeit financed by investors.
- *Cross-pollination of knowledge from other sectors, and other sources of investment:* as HAs and LAs learn more about investors and the new types of finding, so investors find out more about operating social and affordable housing, leading to greater opportunities for partnership.
- *Financial market-tested risk and governance processes that have been applied to social housing for decades*: the importance of the regulatory and track record of HAs in utilising private finance for 40+ years cannot be under-estimated – not one £ of funding ever in default and a strong record of independent and quality governance at board level.
- *Potential access to new opportunities from FPRPs active across multiple living sectors:* some HAs have diversified into delivering other tenure types, including for example market renting and student accommodation; many investors also have these additional 'living' platforms.

For equity investors, housing associations and the existing sector offer the following:

- *Rapid access to properties to accelerate deployment and growth:* one of the key targets for investors and fund managers is scale, i.e. actual deployment of capital; working in partnership with HAs can offer such scale.

- *Access to experienced developers and operators of social housing:* the established track record of the HA sector in delivering developments, and in managing and maintaining properties once built, are key strengths as investors can work with established providers rather than set up their own platforms from scratch.
- *Involvement of non-profit HAs (or LAs) adds credibility to development schemes:* most investors and fund managers are extremely concerned about reputation, particularly as they are investing pension fund monies on behalf of millions of ordinary people; the involvement of HAs and LAs is definitely a reputation-enhancer for investors. Additionally, as noted above, there is a really strong ESG angle to working with HAs and LAs.

Types of partnership

What types of partnerships are emerging? Here are six examples which give a flavour of how the market is evolving and how the non-profit and for-profit sectors are beginning to collaborate. Some are well established, some are just getting going, but all are likely to play their part going forward:

- *Long leases:* In many ways, this is where equity investors came in, and where long-income investment feels most comfortable, drawing upon the covenant strength of a larger HA or local authority; the model accesses freehold or long-leasehold properties, investors lease to the LA/HA over a long period, index-linked generally at CPI (although returns are even lower for CPI+ leases), with a reversion to the LA/HA for £1 at the end of the lease – a type of index-linked finance. This may well continue to be a small minority of completed deals, but they are likely to have a place, perhaps for local authorities with their wider placemaking roles, where authorities gradually get more comfortable with index-linked funding.
- *Sale of HA pipeline to a FPRP/investor:* An HA allocates and sells some of its development pipeline to an investor, maintains the development management role to deliver the new homes, and then manages the properties when built. The investor finances the developments (what is known as 'forward funding' i.e funding in advance of the properties becoming income-producing), creating more headroom for the HA to invest in other elements of their business plan. There are several examples of such deals, most recently Legal & General with Metropolitan Thames Valley.[6]
- *Sale of HA development pipeline into a joint venture with FPRP or investor:* An HA allocates and sells some its development pipeline into a joint venture (JV) with an investor with a FPRP, with different models of JV structure but essentially all focused on joint ownership of the provider that owns the stock when built. The development management role and future management and maintenance roles are retained by the HA.

  The key example here is AXA and Hyde entering into a jointly owned 50:50 FPRP called Halesworth Housing.[7] Whilst there is just this one currently, it might be expected that FPRPs jointly owned by HAs and investors will become more commonly used, as HAs are then able to influence the direction of growth of the FPRP. Whilst Halesworth is a 50:50 arrangement, many investors are likely to want to seek majority control of a JV organisation, particularly as the mandates (i.e. what they are allowed to invest into and what they are not) might stipulate that the fund/investor has control over the future of the JV organisation.

  Examples of a full range of JV structures are likely to emerge soon, and all would represent additional capital invested in affordable housing. In no sense is this a 'takeover' of traditional HAs by new investors, rather both sides working together to find new ways to achieve each other's objectives.
- *Sale of stabilised assets into a FPRP/Joint Venture structure:* An HA sells a portfolio of established income-producing stock to a FPRP/investor, raising capital for reinvestment into other priorities and continuing to manage the stock. To date, the focus has typically been on shared-ownership properties as they are seen as particularly low-risk by investors, and the post-sale management arrangements remain relatively straightforward as costs are low and do not cover repairs. Whilst Hyde are also the key exemplar for this approach, with M&G the investor, it might be expected that more of the larger shared-ownership stockholders will consider similar options. There are upwards of 200,000 shared-ownership properties within the HA and FPRP sectors currently: tens of £billions of value that could potentially be released from HA balance sheets for reinvestment.
- *Investment into new development via a framework:* Not all partnerships need to be focused on new structures: there are examples of investors and funds simply financing development pipelines through a framework or other form of 'right of first refusal' (ROFR) agreement. This could be partnerships between investors and existing 'traditional' HAs or for newly created FPRPs seeking to grow, particularly those led by developers where there is a pipeline of sites and the

opportunity to provide affordable housing supply, but where the developer is seeking new sources of funding to ensure the developments can go ahead.

A small number of such partnerships are at an early stage of development (in early 2023), with the potential for this arrangement to grow. The key benefit for the FPRP/developer is to secure funding, the benefit to the investor is to deploy capital, but the 'ROFR' approach does not tie the parties into a fixed JV structure, thereby leaving more flexibility for the parties to seek funding or investment elsewhere as appropriate.

- *Management agreements for new FPRP stock:* This is by far the most common approach to partnership working to date. FPRPs and investors seek partnerships with established HAs to bring their expertise to help deliver against the regulator's standards and to offer experience and a track record as the FPRP grows. Sage and Heylo use one HA, Legal & General Affordable Homes use a panel of 13 HAs. Management agreements are not generally long, usually for no more than ten years and frequently shorter; generally, there is a split of risks and rewards between the parties – for example on arrears, void periods, lettings and repair costs. This type of shorter-term arrangement works especially well for newly created FPRPs where there is not (yet) the capacity to manage and maintain properties. They can draw on the expertise and track record of the HA sector, which offers reputational advantage in the context of the RSH (i.e. an investor partners with an existing HA to add to their social investment credentials).

  It works well for a HA to grow their management services at a time when they may be constrained in financing new developments and section 106 acquisitions. It is, put simply, an ideal way to 'get to know each other' and examples like this can be expected to grow and diversify in the next few years as the appetite for further collaboration grows.

Conclusions

There is massive interest from investors worldwide in affordable housing in the UK, and specifically in England. There is also a growing interest from housing associations for alternative funding solutions to support investment and growth. There is a mix of activity and a range of models and there is an emerging market for all types of partnerships. The key market drivers are clear, and despite the challenges of inflation, interest rates and general economic volatility, they are unlikely to fundamentally change:

- New equity investors focus on the acquisition of section 106 schemes and grant-funded development schemes – with the likes of Legal & General Affordable Homes and Sage having led the way.
- New equity investors finance housing association development pipelines as HAs 'retrench' into asset management on their existing stock (dealing with fire and building safety, net zero and energy efficiency).
- New equity investors acquire stabilised housing association assets with management maintained by the HA, releasing capital for HA reinvestment – there is a large pool of buyers with FPRPs capable of acquiring at scale.

Just as occurred with the introduction of private finance in the 1980s, leading to a rapid growth in debt funding over a sustained 25-year period, the new age of equity investment has arrived and has really begun to 'kick in' from the late 2010s/early 2020s onwards. Far from seeing the growth of equity investment as somehow a separate sector, it is far more likely that such investors and the established sector will become important partners in addressing the supply and delivery of affordable housing, for decades to come.

Notes and references

1 See www.lgcplus.com/investment/gove-announces-plan-for-16bn-lgps-levelling-up-investment-31-01-2022/

2 For a brief explanation of ESG see www.investopedia.com/terms/e/environmental-social-and-governance-esg-criteria.asp

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4 See https://sustainabilityforhousing.org.uk/

5 See Legal & General and BPF (2022) *Delivering a step change in affordable housing supply*. London: Legal & General.

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Part 4 Housing Finance

Chapter 15

Land value capture through planning and taxation

Mark Stephens

UK Housing Review 2020

The extent to which government should seek to capture increases in land values, and the mechanisms that can best achieve this aim, have received increasing attention in recent years. The issue is given further salience because the UK government is part of a broad consensus that 'agrees that there is scope for central and local Government to claim a greater proportion of land value increases [arising from planning permission].'[1] Although land value capture can relate to all land uses, residential housing development is a key driver of land values and necessarily a major focus of attempts to capture value.

Through the introduction of section 106 agreements in the 1990s a particular form of land value capture (LVC) has become established as a key mechanism for providing affordable housing, and has been subject to some recent reforms. The community infrastructure levy (CIL) has been rolled out by most English local authorities since they were empowered to do so in 2010, and has been subject to a government review. These mechanisms are generally regarded as having been more successful than previous attempts at capturing increases in land values arising from planning permission, but the evidence suggests that much value remains uncaptured by the state. Consequently, there has been a good deal of discussion about how these existing mechanisms might be reformed, and whether they should be supplemented or replaced by others.

The operation of section 106 was discussed in the 2019 edition of the *Review* as part of Contemporary Issues Chapter 2. Since then, important additional evidence has emerged. This includes the latest edition of the government-sponsored survey on planning obligations, now extended to include the operation of CIL, and the House of Commons Select Committee inquiry on Land Value Capture. Further reviews of past attempts at LVC and the operation of LVC in Germany and the Netherlands have been published by the Scottish Land Commission. Government policy and its operation in England have also evolved with the publication of a revised National Planning Policy Framework in July 2018 (and accompanying guidance) and the outcome of a court case.

This chapter, which focuses on England,[2] seeks to provide an up-to-date overview and assessment of the operation of land value capture mechanisms, and to examine their possible development. We first examine the origins of LVC and establish the lessons that can be learned from its past use. We then examine the recent evidence on the operation of section 106 and CIL, and provide an overall assessment of LVC mechanisms. Finally, we discuss the future direction of land value capture.

The origins of land value capture

In the late nineteenth and early twentieth century the issue of land and its value was associated with Liberal (and early Labour) politics and underpinned by Georgist economics.[3] It focussed on the increase in value of undeveloped land (the 'unearned increment') that landowners enjoyed when it increased as a consequence of the efforts of workers and businesses. Some contemporary commentators also highlighted 'the direct expenditure of the ratepayers' money in sanitation and other improvement'[4] in creating the unearned increment – the factor that tends to be emphasised today. The policy prescription was a land value tax, or more precisely an annual tax on the value of land which, it was anticipated, would both recoup some of the unearned increment for the benefit of the community, and encourage landowners to seek returns by developing land. Although a land development tax was introduced before the First World War, it raised little revenue and was abolished in 1920. Whilst the theoretical case for land value taxation has always enjoyed wide support among economists (otherwise of very different views), it is only recently that it has returned to the policy agenda.

The politics of land subsequently shifted to the value created by the planning system. The key (and enduring) aspect of the Town and Country Planning Act 1947 was the nationalisation of development rights. This implied, first, that prospective developers need not be compensated for the refusal of development (although initially provision was made for compensation), and second, that uplift in land value arising from planning permission belonged to the state. Whilst the first of these implications enjoyed political consensus, the second did not. This logic was reflected in the 100 per cent development tax contained within the legislation. It survived only until 1952 when the new Conservative government abolished it. A pattern of attempts to tax development gains by Labour governments and their reversal by Conservative ones followed, e.g. the Betterment Levy (1967-70) and Development Land Tax (1976-85). It is striking how little revenue these taxes raised. In 2018 prices, land value capture taxes raised £234 million in 1952, £482 million in 1969/70 and £237 million in 1983/84.[5]

All assessments of these attempts at capturing land value highlight the lack of political consensus as being a key reason for their limited life. However, a study published by the Scottish Land Commission highlighted other factors that contributed to their failure.[6] These included insufficient incentives for landowners to bring forward land for development; the lack of resourcing provided to agencies responsible for implementation (both administrative and, in the case of local authorities, to develop their own land banks); tensions between national agencies and local government, and the associated lack of sensitivity to local circumstances of a national scheme. Other factors were the relationship between a scheme and the economic/ property cycle, where a scheme developed during a property boom might be implemented during a downturn; and a perceived lack of fairness, exhibited for example when thresholds for development scale were set too low, so bringing in relatively trivial developments and sometimes causing hardship.

Section 106

The modern form of land value capture emerged from planning agreements between local planning authorities (LPAs) and developers in the 1980s. These were formalised in England in section 106 of the Town and Country Planning Act 1990 (and related guidance), which provided for developers to contribute towards meeting the cost of off-site infrastructure costs arising from the development. Formally, a 'planning obligation' under the Act must meet three tests of being '(a) necessary to make the development acceptable in planning terms, (b) directly related to the development; and (c) fairly and reasonably related in scale and kind to the development.'[7]

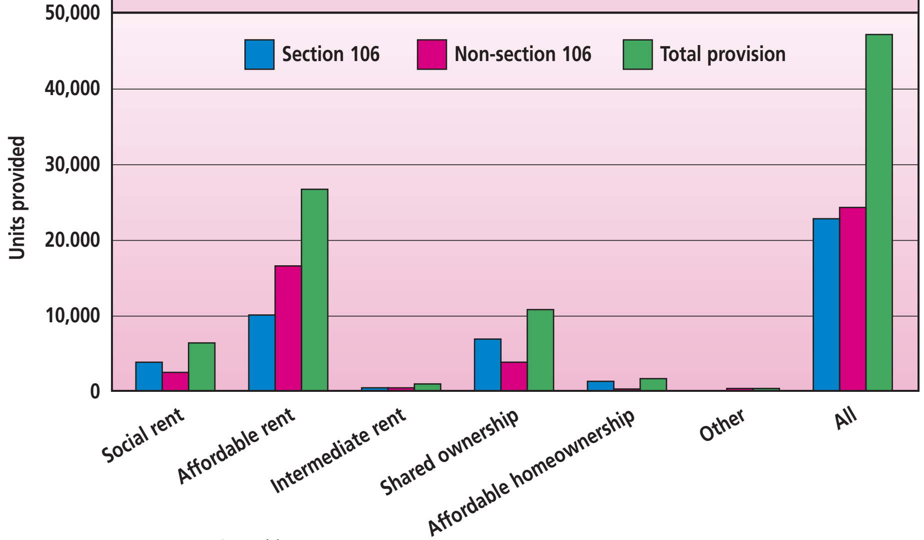
Planning obligations are different in several ways from the previous development taxes. Operationally, they are legally not a tax at all. Whilst taxes can be site specific, the fact that the level of section 106 payment is negotiated breaches standard definitions of tax. Economists would identify them as being charges to address externalities (or spill-over costs) arising from a development, and government has cautioned against using them 'for tax-like purposes [i.e.] purposes not directly necessary for development to proceed.'[8] This leaves their use for the provision of affordable housing appearing to be anomalous, as it would take a convoluted argument to suggest that the need for affordable housing is 'directly related' to a development (in the way that a new road junction or a local school might be). This led one commentator to describe planning obligations as having become 'a hybrid kind of tax, partly a charge for infrastructure and partly a tax on development value.'[9] What is clear, however, is that the scope for meeting the cost of the planning obligation arises from the increase in the value of land arising from planning permission, and it is therefore unambiguously a form of land value capture.

Table 15.1 **Section 106 affordable housing and total affordable housing provision, England, 2004-18**

Year	Section 106	All affordable provision	Section 106 as % of total
2004/05	**18,175**	**37,470**	**49**
2005/06	**23,869**	**45,983**	**52**
2006/07	**25,838**	**44,299**	**58**
2007/08	**27,273**	**53,176**	**51**
2008/09	**32,286**	**55,722**	**58**
2009/10	**29,065**	**58,288**	**50**
2010/11	**28,972**	**61,089**	**47**
2011/12	**16,963**	**58,327**	**29**
2012/13	**15,645**	**43,118**	**36**
2013/14	**16,193**	**43,027**	**38**
2014/15*		**66,698**	
2015/16	**12,911**	**32,626**	**40**
2016/17	**18,518**	**42,223**	**44**
2017/18	**22,929**	**47,355**	**48**

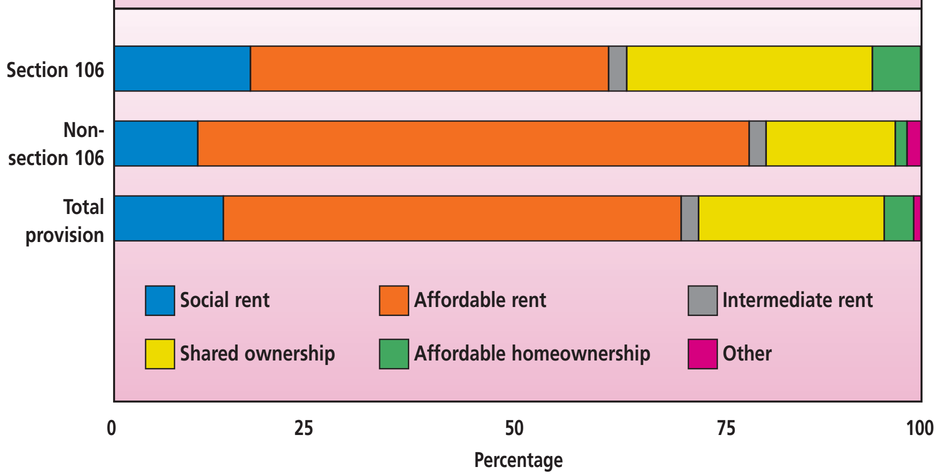
Sources: Section 106 2004/05-2013/14, Jones et al (2018); section 106 2015/16-2017/18, and All affordable provision 2004/05-2017/18, ONS Live Table 1000.
Notes: *2014/15 data not available; 2017/18 data are provisional.

Figure 15.1 **Affordable housing provision by tenure in England, 2017/18**



Source: ONS Live Table 1000.

Figure 15.2 **Tenure profile of section 106, non-section 106 and total affordable housing provision, England, 2017/18**



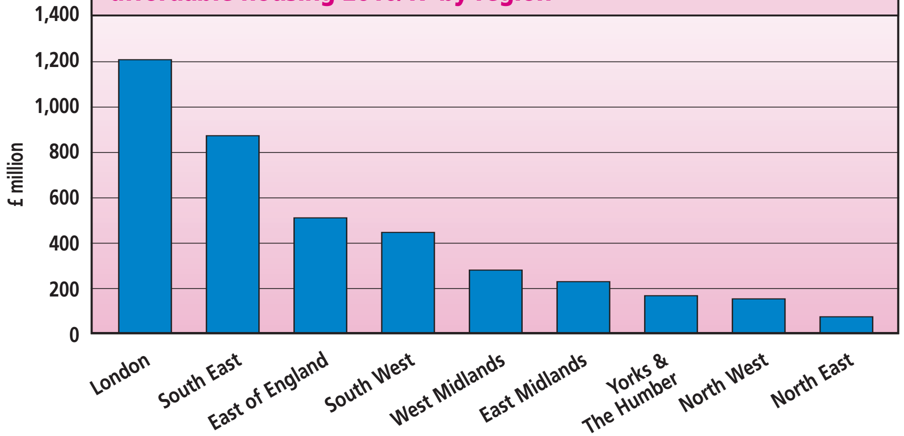
Source: Calculated from ONS Live Table 1000.

By the turn of the century, around one-fifth of affordable housing was being supported by section 106 agreement, but its role then rose significantly in the years up to the Global Financial Crisis (GFC). Its contribution increased from 18,175 units in 2004/05 to 32,286 in the peak year of 2008/09 (Table 15.1). This represented almost half of all affordable housing provided in 2004/05 and almost 60 per cent in 2008/09. As a result of the recession its absolute and relative importance declined to 15,645 units in 2013/14, 37 per cent of the total, and reached bottom in 2015/16, when just under 13,000 units were provided. However, the proportion recovered to 40 per cent as by this stage fewer affordable units were being provided overall. Total units provided by section 106 have now reached almost 23,000 – similar to 2005/06 both in absolute terms and as a proportion of total affordable provision, i.e. around half. These figures confirm another feature of affordable housing provided through developer contributions: it is pro-cyclical, whereas grant-funded affordable housing is often counter-cyclical, peaking at the worst of the GFC.[10]

Figures 15.1 and 15.2 show that the contribution of section 106 to provision of the sub-tenures that make up "affordable housing" in England differs from that provided without section 106 support. Some 62 per cent of section 106-supported housing was rented in 2017/18 whereas more than one-third was in forms of low cost homeownership. The balance is therefore tilted more towards ownership than to renting compared with non-section 106 provided housing, more than 80 per cent of which was rented. However, within the rental sub-tenures, more social rented housing was supported by section 106 than was not: 17 per cent of section 106-supported housing was for social rent, compared with 10.5 per cent of that not supported by section 106. Thus developer contributions played (and continue to play) a role in keeping new social rented provision alive when the emphasis of subsidy has been on Affordable Rent provision or homeownership.

Since section 106 is a form of land value capture, it should be expected to be most fruitful in parts of the country where house prices are high. Indeed, it is a rarely noted irony that the mechanism that contributes towards half of England's affordable housing provision becomes viable as a result of the problem that it is intended to solve (Figure 15.3). The chart demonstrates this clearly: more than

Figure 15.3 **Value of in-kind developer contributions towards affordable housing 2016/17 by region**



Source: Lord, A. *et al* (2018) *The Incidence, Value and Delivery of Planning Obligations and Community Infrastructure Levy in England 2016-17*, Table 3.7.

Table 15.2 **Number of affordable housing dwellings agreed by type of location**

Affordable housing contributions	2011/12		2016/17	
	No.	%	No.	%
Commuter belt	2,240	7	12,464	25
Established urban centre	385	1	1,335	3
London	16,725	52	8,465	17
Rural england	6,856	21	15,096	30
Rural towns	1,451	5	6,488	13
Urban England	4,544	14	5,776	12
Total	32,201	100	49,624	100

Source: Lord, *et al* (2018), Table 3.6.
Note: The two years may not be directly comparable as definitions of 'affordable' housing changed. The numbers of units agreed exceeds the numbers actually provided as not all sites are built out.

half of the value of in-kind developer contributions towards affordable housing are attributable to London and the South East. In contrast, the Northern regions account for only one-tenth of the total value of housing-related developer contributions in England. Whilst these figures do not take into account the relative populations or levels of housing need in the regions, they do highlight the way in which LVC's uneven geography underpins provision in the highest cost areas. A further effect, not apparent in the figures, is for section 106 to alter the mix of provision, for example by making social rented housing viable in high cost areas. In contrast the qualitative evidence collected in the MHCLG review suggests that developers operating outside London are often reluctant to provide affordable housing for fear that it might make a site unviable.

Nonetheless the most recent MHCLG survey (for 2016/17) suggests that there has been a change in the geography of provision since the last survey in 2011/12. Table 15.2 indicates that within an overall increase in the number of affordable houses agreed, the number in London fell very substantially in absolute and relative terms. In contrast there were large increases in commuter belts and rural England.

The authors of the MHCLG report note that there is not an even link between the value of land value generated (or captured) and the number of units of affordable housing provided because the cost of provision, the levels of rents and hence the depth of subsidy per unit vary greatly by region, site and sub-tenure (social, Affordable Rent, etc.). Nonetheless, the introduction of the community infrastructure levy (discussed below) must have crowded out on-site affordable housing to a degree in areas where it has been adopted.

In the 2019 edition of the *Review* we highlighted concerns that developers were using viability tests to limit the amount of affordable housing that they provided through planning obligations. Since then, the government has revised the National Planning Policy Framework (NPPF) and accompanying guidance. The new NPPF envisages that viability will be tested at the plan-making stage by requiring developers to set out the levels of affordable housing they intend to provide. Further the accompanying Planning Practice Guidance establishes that developers will be assumed to have taken into account the affordable housing requirements set out in the local plan in the price that they pay for housing.

The guidance states, 'Under no circumstances will the price paid for the land be relevant justification for failing to accord with the relevant policies in the plan.'[11] This reinforces the Pankhurst Road Ltd judgment in April 2018, in which Mr Justice Holgate ruled that, 'I do not accept the appellant's position that the level of affordable housing provision is not relevant to the determining land value, as any notional willing land owner is required to have regard to the requirements of planning policy and obligations in their expectations of land value.'[12] This may help to reduce the temptation for developers to overpay for land since the affordable housing contribution is no longer the 'residual' in a viability calculation. However, it is likely that the waters will become muddied as market conditions change. The state has signalled that in normal market conditions over-bidding for land is not a reason for reducing affordable housing provision, but maintaining this position in a recession is another matter. Moreover, the reform also does not address the inequality in resources between local planning authorities and large developers, although the requirement to make viability assessments public marks a significant improvement in transparency.

Overall, section 106 is regarded as having been more successful than the explicit development taxes that preceded it. Affordable housing obligations are estimated to have been worth £4 billion in 2016/17, which is about £800 million more in real terms than in 2007/08 (the previous peak) and about £1.5 billion more than in 2011/12.[13] When all other developer obligations are added to this the total value rises to £6 billion (including CIL), which is almost identical to the 2007/08 total. In this sense its relative success is generally attributed to cross-party support, relative simplicity, the maintenance of a balance of incentives between landowner, developer and community, its site-specific flexibility, and visible benefits.

Nonetheless, two outstanding concerns remain. One is whether the balance of the benefits from land value increases arising from planning permission are shared fairly. It is difficult to provide figures with any certainty. The Select Committee report cites expert witnesses who suggested that the landowner is left with half the market value of the land (which not the same as its uplift).[14] Another witness suggested that landowners retain three-quarters of the uplift in land value arising from the granting of planning permission.[15] In a separate report, the Centre for Progressive Policy suggests that only 27 per cent (or £5 billion) of the total uplift in land values arising from land being granted planning permission was captured in 2016/17.[16] There are therefore grounds for believing that more of the increased value in land arising from planning permission could be captured by the state/community without deterring development.

Community infrastructure levy

The community infrastructure levy (CIL) represents an attempt to extend the scope of land value capture in terms of the developments expected to contribute and the use to which the resources generated are put. It is 'a locally-determined, fixed-rate development charge designed to help finance infrastructure needed to deliver infrastructure to support the development of the affected area.'[17] It differs from section 106 in two important respects. First, it is based on a standard charge (but see below) expressed in £ per metre rather than a site-specific negotiation. Second, it is used to finance infrastructure needs that are not directly related to the development.

CIL was intended to provide a simpler and more certain alternative to section 106, but the devil is in the detail. Charges (which are subject to statutory public consultation and independent examination) may vary *within* a local planning authority area, and *between* different kinds of development. Further complexity is added by systems of exemptions. Local authorities in England and Wales[18] have been able to introduce CIL since 2010, since when around two-thirds have done (or are doing) so. A review team which reported in 2016 noted that the uneven take-up (unsurprisingly) has a geographical pattern with many northern authorities finding that CIL was not worth introducing as it would not yield sufficient revenue and risked undermining development.[19] The review group also found that the range of exceptions and exemptions was problematic and CIL was unsuited to large complex developments, where, according to the chair of the group, it is 'almost impossible to apply the formulaic CIL approach.'[20]

CIL is estimated to have raised £945 million in 2016/17[21] and early-adopting local authorities found that it was raising 50 per cent less revenue than anticipated.[22]
In evidence to the House of Commons Select Committee, Transport for London and the Greater London Assembly found that the need to maintain 'strategic viability' of an area as a whole leads to 'a bias towards setting lower rates.'[23]
In other words it has an inbuilt and entirely predictable tendency to under-tax land value uplift arising from planning permission.

The review group recommended that CIL be replaced with a local infrastructure tariff (LIT) which would be set at a low rate, and a strategic infrastructure tariff (SIT) for combined authorities. The latter has some similarities with the Mayoral CIL established in London to contribute towards the costs of Crossrail 2, which was set at a low rate. It raised £500 million (£200 million over target), representing 15-20 per cent of the costs of the development.[24] The government has ruled out a LIT, but favours SIT for combined authorities.

Of longer-term relevance from a housing perspective is that 93 per cent of value of CIL is raised from residential developments (compared to 95 per cent for section 106).[25] Bearing in mind that affordable housing is not included on the schedule of permitted uses of CIL, it may well be that the robustness of affordable housing contributions in recent years is attributable to the poor design and more limited viability of CIL. If CIL is made more effective, or is replaced by mechanisms that are more effective, then affordable housing might suffer. There may be more scope for capturing the uplift in land value arising from planning permission, but it can be captured only once.

LVC and housing delivery

The debate on LVC has broadened in recent years, partly in response to the widely accepted need for a step change in housing supply which the current private sector development model is ill-equipped to deliver. Many commentators have highlighted the success of the post-war New Town Development Corporations which initially were able to acquire land at (close to) existing use value, to put in infrastructure and sell on some of the land to private developers. However, under the Land Compensation Act 1961, compensation under compulsory purchase orders (CPOs) is based on valuations that include so-called 'hope value', i.e. the value of land taking into account planning permission for its development. This greatly diminishes the scope for using CPOs as part of a LVC mechanism. The government introduced a 'no scheme' principle in the Neighbourhood Planning Act 2017 (which applies in England and Wales) which allows local authorities to value the subject of a CPO on the assumption that neither the intended scheme nor any other scheme will replace it, so lowering its value. Thus, '...it is to be assumed that there is no prospect of the same scheme, or any other project to meet the same or substantially the same need, being carried out in the exercise of a statutory function or by the exercise of compulsory purchase powers.'[26] The impact of this measure will doubtless be tested in the courts, and there remain calls for further reform.

The question of compensation under CPOs is inherently problematic as it goes to the heart of the disputed territory of property rights. In the context of estate renewal, particularly in inner London, many leaseholders (for example former tenants who exercised the right to buy) contested local authority valuations on the basis that they would be unable to purchase a similar property in the area – breaching the 'equivalence principle'. There are clear tests of public interest and proportionality under the European Convention on Human Rights (ECHR) which may allow CPOs to be made at existing use value. Whilst it is true that the UK was a signatory to the ECHR before the 1961 Act and that other signatories continue something akin to this practice, a definitive answer can only be found when it is tested legally. An additional anomaly experienced in the 1950s arose from landowners receiving quite different amounts depending on whether they sold their land on the open market to private interests or through CPO to the government. Much controversy can be expected if such disparities were to re-emerge within the present-day system.

The solution may lie in the economics of land value capture. If LVC mechanisms are effective then they can have the effect of reducing the open market value of land down towards the existing use value. This appears to be the lesson from Germany and the Netherlands where (to simplify greatly) the purchase of land by the state under site preparation schemes operates through the deduction of infrastructure costs from the value of the land.[27]

Limitations and conclusions

It is notable that current mechanisms to capture increases in land value focus on development and planning permission. Yet, historically, it is well understood that land values benefit from economic growth and public investment in infrastructure long after development has taken place. This means that huge amounts of land value remain uncaptured whilst government focuses on capturing value from activities that it wishes to encourage, notably housebuilding.

The land value capture debate will remain partial until it refocuses on the mechanisms for taxing current land and property values rather than focus entirely on planning gain. The current taxes on housing are widely accepted to be inefficient (in the case of stamp duty land tax and its equivalents employed by the devolved administrations) and inequitable (in the case of the council tax).[28] Land value taxation is often dismissed as being impractical logistically and politically impossible. It has been revisited in a recent report for the Scottish Land Commission.[29] Yet there is a huge gap between a full recurrent tax on current land values and what we have now – a council tax system that is designed to be regressive between individuals and regions and is riddled with anomalies arising from its being based on property values that are more than a quarter of a century out of date (in England and Scotland).[30] Whilst 'in principle' and even pragmatic reform proposals abound, much greater consideration is required to devise ways to build consensus and implement fundamental reforms. The time horizons for reforms of this nature are necessarily long, but can be built up from a small base. Is it time to resuscitate the mansion tax?

Notes and references

1 MHCLG (2018) *Government Response to the Housing, Communities and Local Government Select Committee inquiry on land value capture*, SM 9734. London: MHCLG.

2 Wales operates both section 106 and CIL. Scotland operates a similar system to section 106 known as section 75, but the Scottish Government does not publish statistics on affordable housing provided through it. Provision is made for an infrastructure levy in the current Planning Bill. Such mechanisms are not well developed in Northern Ireland. See Jones, C. *et al* (2018) (note 6 below).

3 Henry George (1839-97), American political scientist; author of *Poverty and Progress* (1879).

4 Hobhouse, L.T. (1911) *Liberalism*. Oxford: Oxford University Press, p.53.

5 Recalculated using Bank of England inflation calculator from Rowley, S. & Crook, T. (2016) 'The incidence and value of planning obligations', in Crook, T., Henneberry, J. and Whitehead, C. (eds.) *Providing Infrastructure and Affordable Housing*. Chichester: Wiley Blackwell.

6 Jones, C., Morgan, J. and Stephens, M. (2018) *An assessment of historic attempts to capture land value uplift in the UK*. Inverness: Scottish Land Commission.

7 See National Planning Policy Framework (NPPF) 2018, para. 56 (www.gov.uk/government/collections/revised-national-planning-policy-framework).

8 ODPM, 2004, quoted in Crook, T. (2016) 'Planning Obligations in England: de facto Taxation of Development Value', in Crook *et al* (eds.) 2016), *op.cit.*, p.87.

9 Crook (2016), *ibid.*, p. 64.

10 However, section 106 helped developers during the GFC, as they could dispose of units which they could not sell on the open market to housing associations (albeit at discounted prices) as a means of discharging section 106 obligations. This eased their cash flow problems.

11 Quoted in House of Commons Housing, Communities and Local Government Committee (2018) *Land Value Capture*. Tenth Report of Session 2017-19, HC 766, para. 54.

12 *Ibid.*, para.56.

13 Lord, A. et al (2018) *The Incidence, Value and Delivery of Planning Obligations and Community Infrastructure Levy in England 2016-17*. London: MHCLG, Table 3.3.

14 House of Commons Select Committee, *op.cit.*, para. 28.

15 *Ibid.*, para.27.

16 Aubrey, T. (2018) *Gathering the windfall. How changing land law can unlock England's housing supply potential*, Working Paper 03/2018. London: Centre for Progressive Policy.

17 House of Commons Select Committee, *op.cit.*, para. 68.

18 There is currently no CIL in Scotland, but the current Planning Bill contains provision for one.

19 Peace, L. *et al* (2016) *A New Approach to Developer Contributions: A Report by the CIL Review Team*. London: MHCLG.

20 Quoted in House of Commons Select Committee, *op.cit.*, para.73

21 Lord, *et al* (2018), *op.cit.*, Table 3.3.

22 House of Commons Select Committee, *op.cit.*, para. 72.

23 *Ibid.*, para. 72.

24 House of Commons Select Committee, *op.cit.*, para. 75.

25 Lord, *et al* (2018), *op.cit.*

26 Evlin, D. (2018) *CPOs and Compensation: The no scheme principle and s.6A of the LCA 1961*. London: Landmark Chambers.

27 See Crook, T. (2018) *Local authority land acquisition in Germany and the Netherlands: are there lessons for Scotland?* Inverness: Scottish Land Commission.

28 For example Mirrlees, J., *et al* (2011) *Tax by Design*. Oxford: Oxford University Press, chapter 16.

29 Hughes, C. *et al* (2018) *Investigation of Potential Land Value Tax Policy Options for Scotland*. Inverness: Scottish Land Commission.

30 It is regressive between individuals as a result of the 'band multipliers' which mean that it levies a smaller proportion of property value as value rises. It is thus unambiguously regressive against its base. The same feature causes the tax to be regressive between local authorities through the allocation of central government grant. Reforms in Wales and Scotland made the system marginally less regressive.

Part 5 International Perspectives

Chapter 16

Europe's changing housing systems: what can the UK learn?

Mark Stephens

UK Housing Review 2020

Introduction

Housing policy-makers have always sought inspiration from other countries. International agencies have promulgated 'ideal' forms of housing system, usually founded on principles of market efficiency, for example as exemplified by the World Bank's (1994) document *Housing: enabling markets to work*. Bodies such as the OECD and European Commission provide commentaries and advice on members' housing systems, largely within this framework of market efficiency, although there is now more acceptance of a role for social rented housing than was the case 20 years ago.

This approach tends to treat housing as a normal market good and to neglect institutional detail, leading to simplistic assumptions. It also tends to neglect the wider social and economic context in which any housing system operates. Yet housing systems are intimately bound up with wider economic systems and their management, and with the social context especially relating to income distribution, wider welfare systems, and poverty.

There are examples of individual policies being transferred. Arms Length Management Organisations (ALMOs) were in part inspired by models of municipal housing company found in countries such as Germany and Sweden.[1] Choice-based lettings were imported from the Netherlands, and the success of Housing First in Finland has made this model popular around the world.

However, by neglecting the context, there is danger that naïve forms of policy transfer can take place, but without the expected results. The most extreme form of this was the mass privatisation of public housing in the formerly socialist countries of central and eastern Europe, and the attempt to establish mortgage markets – either based on the US model of securitisation (as in Russia) or on the German mortgage and savings bank model (most of central Europe). In the event the housing systems that have emerged are dominated by unmortgaged outright homeownership with new supply being derived from self-build in various forms – far from what the World Bank and other advisors anticipated in the 1990s.[2]

The *UK Housing Review* is developing a stronger international and comparative content. What is happening in other countries can help us to interpret what is happening in the UK. There can be possibilities of policy transfer provided there is sufficient regard to context. And, of course, there can be 'negative' lessons: policies to avoid. More broadly international comparisons are most useful when they take a system-wide approach, taking into account social and economic context, and the interactions between different parts of the housing system.

Consequently, this chapter examines the evolution of two European housing systems, which developed in rather different ways from the UK, within the wider context of their changing social and economic systems. Germany, once famous for the social market, is well known for its reliance on renting and its relatively small owner-occupation sector. Sweden is best known for its historic egalitarianism and 'housing for all' housing model. Both these systems have experienced a substantial transformation in the past two decades.

This chapter examines the transformation of the German and Swedish housing systems, seeking to place these changes in the wider context of social and economic change. It then goes on to ask what lessons the UK can learn from these countries' experiences.

Germany

Origins

Germany's post-war economy was founded on the model of the social market: the market is accepted as the dominant part of the economy, but requires state intervention to retain market efficiency and social fairness. As we shall see these principles defined the housing system. Corporatism was a central part of it, and this included wage setting by industry-wide collective bargaining between employers' federations and trades unions. This was combined with a social security system strongly rooted in social insurance. These mechanisms supported the so-called 'economic miracle', avoided wide income disparities whilst maintaining status derived from employment. It was also one marked by socially conservative assumptions, particularly in the labour market, where the 'male breadwinner' principle prevailed with a consequent low level of female employment. Macroeconomic management rejected Keynesianism due to an aversion to inflation attributed to the experience of hyperinflation during the Weimar Republic, and the Bundesbank was independent and charged with maintaining low inflation. Again, the avoidance of inflation helps to explain why housing did not gain the status of being a hedge against inflation that it did in the UK.

Faced with huge housing shortages, the state inevitably played a large role in the reconstruction of German cities after the war. Intervention, however, followed social market principles. Whilst large municipal housing sectors were built up (through company structures), they sat alongside other providers which included major public sector (e.g. post office, railways) and private sector (e.g. Volkswagen) employers. Further, interest subsidies were made available to for-profit private landlords who, in turn, were obliged to let housing to lower-income groups at below market rents. Subsidies were designed to keep rents below market levels when front-end costs were high. But after a period (usually 30 years), the subsidised loan was repaid. In the private sector this meant that housing that had been legally 'social' became 'for market' once the repayment was complete. Approaches to rent setting operated on social market principles. Whilst shortages were acute, rent controls operated. As shortages were removed, rents were deregulated on an area basis. In the 1970s a form of 'second generation' rent regulation was adopted, whereby rent increases were linked to prevailing rents in similar properties in the same market. In any circumstances rent rises were limited to 30 per cent over three years. As compensation for these restrictions, landlords benefit from 'negative gearing' – the ability to offset losses from rentals against other income sources.

The German housing system therefore operated in a very different way from the UK. The distinction between private and social renting was blurred whilst the combination of quality, security and certainty over future rents made the rental sector competitive with homeownership. It is true that the German housing finance system was notoriously risk averse, and this combined with regulations that limited lending (for example, on the maximum value mortgages that could be supported by mortgage bonds). The subsidised savings scheme (operated by *Bausparkassen*) also provided an incentive to postpone purchase while a deposit was saved. However, lower inflation (both house price and general) in any case made homeownership less attractive than in high-inflation economies.

Transformation

The context has changed as the economy became sclerotic in the 1990s – in particular, employment growth lagged behind the US and its highly deregulated labour market. At the same time as budgets were stretched by unification, in the 1990s a Social Democratic government pushed through a reform programme (*Hartz*) which deregulated the labour market and tightened eligibility to social security benefits. Since then employment has risen, particularly among women, to the extent that the female employment rate now (slightly) exceeds that in the UK (Table 16.1). Nonetheless corporatist-style wage bargaining is now less common and although the establishment of the euro has taken pressure off the (overvalued) deutschmark, many of the new jobs are part-time, wages have been squeezed and in-work poverty has risen rapidly (Figure 16.1).

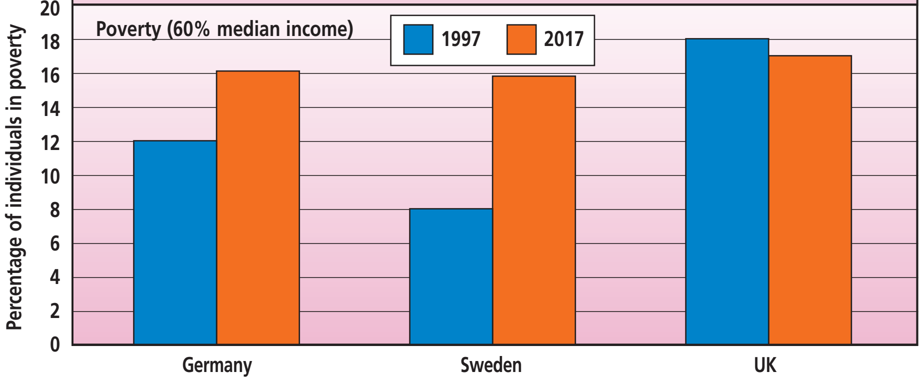
Table 16.1 **Employment rates in Germany, Sweden and the UK**

Percentages in employment

		1995	2007	2017
Germany	Male	**73.7**	**74.7**	**78.9**
	Female	**55.3**	**63.2**	**71.5**
	Total	**64.6**	**69.0**	**75.2**
Sweden	Male	**73.5**	**76.2**	**78.3**
	Female	**70.9**	**71.8**	**75.4**
	Total	**72.2**	**74.2**	**76.9**
UK	Male	**76.1**	**78.7**	**79.6**
	Female	**62.5**	**66.3**	**70.4**
	Total	**69.2**	**72.4**	**75.0**

Source: OECD Employment Population Ratios, (LFS – Sex and Age Composition) OECD.Stat.

Figure 16.1 **Poverty rates in Germany, Sweden and the UK**



Source: EU-SILC.
Note: Based on 60 per cent of median household income as the poverty 'threshold'.

The social rented sector in West Germany peaked at around 20 per cent in the early 1970s, since when it has declined as stock owned by private landlords comes out of subsidy and is not replaced at a sufficient rate by new build. There was a reaction against the social sector in the late 1980s following the bankruptcy of a large trade union housing company, and since then the sector has been in retreat. Federal subsidies were 'saved' only by the need for investment brought about by unification. Partly reflecting ideology and partly financial pressures, there were widespread sales of municipal and other publicly-owned housing to private landlords in the 1990s and 2000s. These included the whole of Dresden's municipal housing stock, and in excess of 150,000 units in Berlin. Additionally, municipalities in the former East Germany were forced to sell 15 per cent of their stock as the western system was introduced in the east. The post office and railways also divested themselves of their housing, along with private sector employers including Krupp.

Some municipalities have come to regret selling their stock as higher rents also attract higher housing allowance payments for which municipalities are partly responsible, and there have been some repurchases. But the direction of travel is clear. The social rented sector has shrunk hugely and, using the legal definition of social housing, is down to perhaps only three per cent of the stock. It is in effect larger than this when technically free-market housing is still owned and managed by landlords with a social mission.

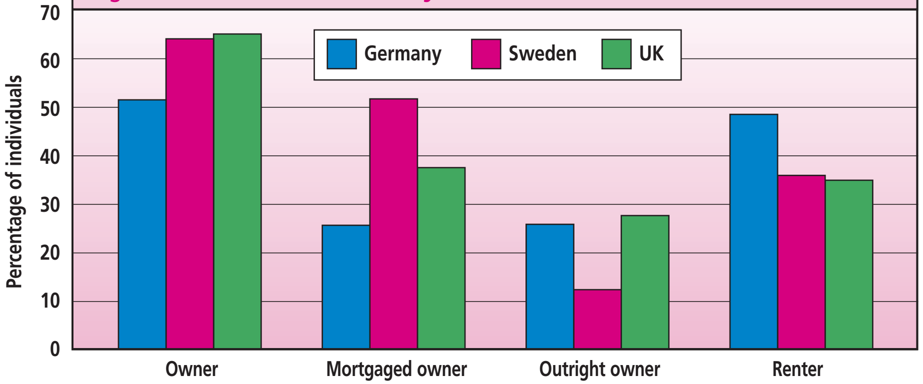
The nature of private landlords has also changed. The institutional landlords which purchased the municipal and other stocks were first private equity companies and hedge funds, but they have often sold stock on to listed real-estate companies as the market has recovered, and ultra-low interest rates make renting (as a landlord) attractive.[3] The biggest player is Vonovia which owns 400,000 units in Germany, Austria and Sweden, and was formed out of a merger between Deutsche Annington (a subsidiary of Annington UK which specialises in leasing homes to the UK's defence ministry) and Gagfah (a Luxembourg real-estate company) in 2015. Deutsche Wohnen, a subsidiary of Deutsche Bank but now a listed company, has 165,500 units; Buwog is an Austrian-based company with 51,000 units in Austria and Germany.

In the 1990s and 2000s, the pressures on Germany's housing market were not great, but over the past 15 years or so pressures have mounted in some markets including Berlin, Frankfurt, Cologne and Munich. This has brought housing back as a political issue, leading to increased regulation. The first measure allows state governments to extend rent regulation to new contracts in high-pressure areas, and now applies in much of the country. Rents on new contracts cannot exceed a threshold of rents on similar properties by more than ten per cent. In Berlin, and elsewhere, it is the new corporate landlords that have become the target of protests against rising rents – with some protesters calling for the expropriation of larger landlords' portfolios. This resulted in what has been reported as legislation for a five-year 'rent freeze' in the State of Berlin. In fact the 'freeze' is an above-inflation rent increase and properties built after 2013 are exempted. The law has caused much concern among the real-estate companies, and there is at least one instance of a company citing the law as a reason for not proceeding with a planned development. It is also likely to be subject to legal challenge.

Whatever the outcome, it is indicative of a housing system that is ceasing to operate on social market principles, where regulation works with the grain of the market. Another consequence of rising rents is that more attention has been placed on means-tested housing assistance. As a result of the social security reforms, relatively few households are entitled to *Wohngeld*, the German housing allowance. In 2017 it was received by fewer than 600,000 (mostly pensioner) households at a cost of €1.1 billion. It is, however, being uprated in 2020 and this is expected to bring in a further 60,000 households at a cost of €1.2 billion.[4] Recipients of social assistance benefits (i.e. non-insurance means-tested benefits) cannot claim *Wohngeld,* and instead receive support for housing costs as a supplement to these benefits. Indeed the vast majority of cash assistance for housing costs is now directed through social assistance benefits. Some four million households receive assistance through these benefits at a cost of €17 billion. Whilst the cost of rental assistance in Germany remains below that in the UK, it is nonetheless significant – and much more so than when comparisons focus only on *Wohngeld*.

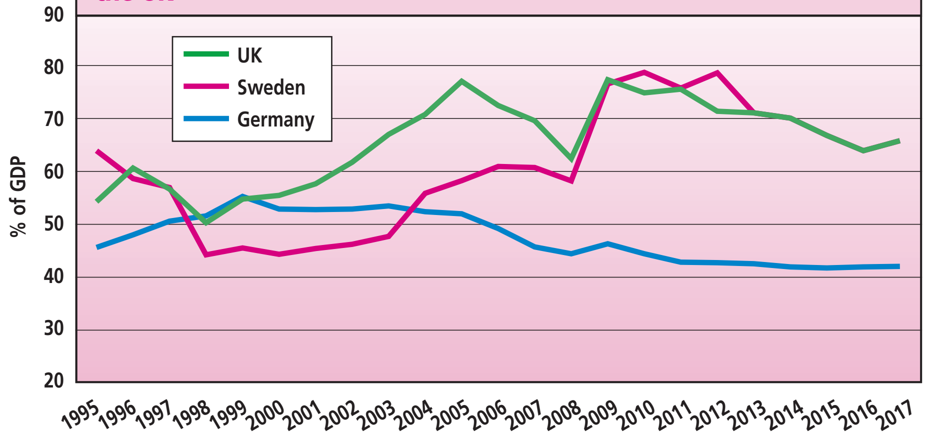
House prices have also risen in Germany in line with the market. However, it is notable that the German housing system has not experienced the 'financialisation' of the homeownership sector that has been seen in countries such as Sweden (see below) and the Netherlands. Homeownership has failed to grow in Germany (Figure 16.2), and mortgage debt has actually fallen as a share of GDP over the past two decades (Figure 16.3). The profile of renters shows that the rental sector still almost matches ownership, and some 44 per cent of people who are not in poverty are renters. This suggests that the private rental sector continues to compete against ownership – but its ability to do so is coming under strain with the result that pressure is mounting for greater regulation of private tenancies.

Figure 16.2 **Tenure in Germany, Sweden and the UK, 2018**



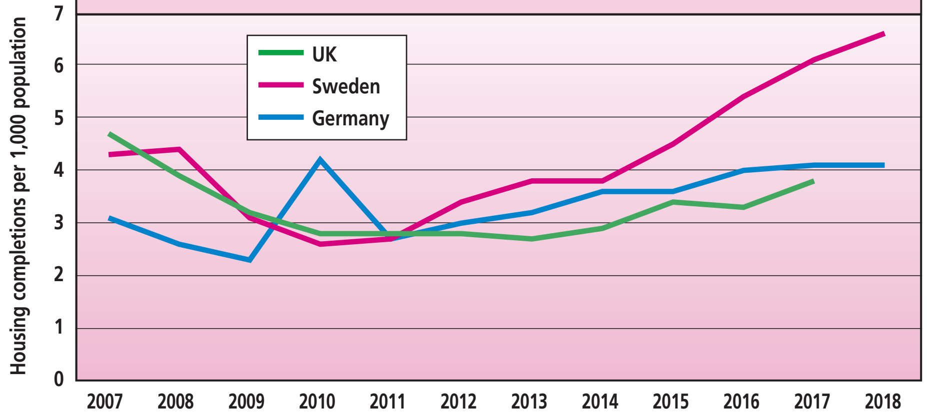
Source: EU-SILC.
Note: It is not possible to distinguish between private and social renters.

Figure 16.3 **Mortgage debt as a share of GDP in Germany, Sweden and the UK**



Source: 2006-17 European Mortgage Federation, *Hypostat* (1995-2005; 2018).

Figure 16.4 **Housing completions per 1,000 population in Germany, Sweden and the UK**



Source: Calculated from EMF (2019) *Hypostat*, Table 14.

Inevitably, these affordability pressures have led to a refocus on the supply side, with new dwellings falling far short of the federal government's 375,000 annual target. In pro-rata terms housing completions are slightly higher than in the UK (Figure 16.4).

The government devolved responsibility to the state governments in 2006 and intended to phase out federal subsidies by 2019. However, the law has changed to facilitate subsidy once again, providing €5 billion over 2018-21 which, combined with state-level funding, is intended to help to provide 100,000 units of social housing.[5] The European Commission has suggested that the social housing programme might need to be accelerated, along with reform of the planning system.[6] The federal government has also recently introduced tax incentives to encourage investment in apartment building – allowing five per cent of procurement and production costs to be offset against tax for a period of four years.[7]

Sweden

Origins

Sweden's housing system developed in a distinctive manner within the context of a unique social and economic model (known as *folkhemmet* – the people's home), which was formed during the long period of uninterrupted social democratic government from the 1930s to the mid-1970s. Prosperity was founded on an agreement between unions and the employers' federation to limit wage rises and to reinvest profits in businesses to facilitate future growth. The system allowed unprofitable enterprises to fail, but workers were supported by a generous social insurance system and a system of workfare, including retraining for redundant workers. Centralised wage bargaining also suppressed wage differentials, contributing to very low levels of income inequality whilst childcare facilitated high levels of female employment. The economic model began to encounter difficulties in the late 1960s and deteriorated further in the 1970s, with high levels of wage inflation and an economic policy reliant on devaluations. Consequently, there was a greater dependence on high taxes and high levels of public expenditure.

Housing formed an important pillar of the Swedish model, being founded on the principle of tenure neutrality and a consensus that there should be no distinct 'social' sector. Housing supply was expanded greatly during the period of the Million Homes Programme from the mid-1960s to the mid-1970s, when subsidies were made available on a cross-tenure basis. From the late 1960s, rent setting followed the same corporatist principles as wage bargaining, being negotiated between the tenants' union and the municipal housing companies. Rents in the municipal housing company (MHC) sector in turn were used to set rents in the for-profit rental sector, which as in Germany was able to provide an attractive alternative to homeownership. Additionally, until the late 1960s the attraction of tenant-ownership within the co-operative sector was limited by the application of administratively set prices (based on 'use' rather than 'exchange' value), so greatly limiting the prospect of making capital gains. The principle of 'housing for all' was applied by MHCs to allocations, so there were no income limits or targeting to people in most need. The 'housing for all' approach was facilitated by expanding supply and the very low levels of poverty produced by Sweden's social and economic model.

Transformation

The turning point in Sweden arrived in the early 1990s with the banking and wider economic crisis which drove unemployment up to over ten per cent. Given that the social and economic model relied on full employment this was a clear signal of system failure. The system of centralised wage bargaining ended in the 1990s, and under a social democratic government labour market and social security reforms took place. Macroeconomic management changed, too, and fell into line with the new orthodoxy: the central bank was made independent in 1999 and charged with inflation targeting in the manner of the European Central Bank and Bank of England. Sweden's response to the financial crisis has included the adoption of ultra-low interest rates and a programme of quantitative easing designed to support asset prices. Whilst employment has recovered to high levels (Table 16.1), Sweden has experienced some of the fastest rises in income inequality and poverty in Europe. Indeed poverty has reached a similar level to that in the UK, which has had one of the highest rates in western Europe since the 1980s (Figure 16.1). Further, there are stark divisions between the social and economic prospects of people born in Sweden and those born abroad. It is in this context that housing policy has evolved.

Housing system change therefore reflects the wider social and economic changes since the 1990s. Government subsidies to support new construction ceased in the

1990s, with a resultant decline in new build, to which the private sector was, until recently, unable to respond fully. Hence the seeds of today's housing shortages were sown. Housebuilding rates fell way behind population growth arising from high levels of immigration, internal migration and a relatively high birth rate. Generally, when shortages of affordable housing emerge, the response is to target available housing to people in most need.

About ten years ago, the Netherlands and Sweden were faced with a dilemma when the European Commission indicated that these countries' respective housing association and MHC sectors benefited from unjustified state aid, because their housing was part of the mainstream rental market and therefore represented unfair competition with for-profit landlords.

The Dutch government chose to target housing allocations, thereby gaining exemption from competition rules by operating with a clientele who are 'outside' the market. In 2009 an annual household income limit was introduced. Consequently (in 2018) 80 per cent of new housing association lets in the Netherlands had to be made to households with incomes below €36,798; a further ten per cent could be made within the band €36,798-41,056; and ten per cent could fall outside this.[8]

In contrast to the Netherlands, the Swedish MHCs opted to behave in a more business-like way in order to avoid the anathema of 'social' renting by introducing income limits. But with shortages growing, particularly in Stockholm, Gothenburg and Malmo, MHCs have had to increase rationing. MHCs have historically been hesitant to house low-income households, or households with special needs, and have employed rationing devices such as minimum-income requirements, or have directed low-income households to the least desirable estates. Post-2011, this kind of exclusion has been ramped up with some MHCs even using an applicant's receipt of housing allowance as a disqualification, and they have moved upmarket.[9] However, in the context of rising poverty, local authority social services departments have leased more MHC properties to house people in the greatest need. Although they are housed in MHC stock, they are housed on less generous terms than mainstream tenants in the rights and conditions attached to their tenancies. This has led to a 'squeezed middle' of households no longer able to access MHC or protected private rental housing through the normal waiting lists.[10]

There have been some reforms to rent setting. Since 2011 private landlords are partners in the annual rent negotiations and they may now set rents in line with the average of both MHC and private rents, rather than just the MHC rents – which are lower. Nonetheless, the system of rent control remains essentially intact, with the result that an insider-outsider divide has opened up between sitting tenants who enjoy security and modest rents, and those who cannot access rented housing. Inevitably, a part-legal and part-illegal secondary market in protected tenancies has opened up: 'If you move to a city in a growth region in Sweden, you normally buy an apartment or rent a second-hand apartment at a cost far higher than rents on the regulated first-hand market.'[11]

Consequently, many people seek to access homeownership if they can afford it. The mortgage market was liberalised in the 1980s, and facilitated a growth in mortgaged homeownership, especially in the co-operative-owner sector. As a tenure, co-operative ownership became akin to full ownership only after 1968 when shares could be traded openly rather than sold only at administratively established 'use' value. Now people purchase shares in the co-operative on the open market and these entitle them to live in the property; they also pay a management fee. Their share is mortgageable and can also be resold. This part of the ownership sector has also been bolstered by the sales of MHC rental properties. While most of the 100,000 units sold in the 15 years up to 2015 are now owned by private landlords, a substantial minority have found their way into homeownership.

Ownership, which enjoys favourable tax treatment in terms of property taxation and mortgage interest deductibility, is now the largest tenure – although it has fallen back to about 65 per cent in recent years (Figure 16.2). Further most Swedes are mortgaged owners and mortgage debt as a share of the economy is among the highest in Europe (Figure 16.3). The European Commission believes that the market could be overvalued and some macro-prudential measures have been taken, notably a 2016 law which sets minimum rates of amortisation, which appears to be dampening demand by restricting access.[12]

The housing shortage has received considerable attention in Sweden. The construction sector has long been regarded as being uncompetitive with a high degree of vertical integration. Construction costs are high. Partly in response to labour shortages there has been a greater reliance on off-site construction which dominates housebuilding and is used in perhaps one-third of new apartments. The government announced a series of measures in 2016 to boost construction rates, including some subsidies, promoting land sales and loosening planning regulations.[13] Certainly, construction rates have risen very considerably in the last few years – to more than 50,000 units (compared to 30,500 in 2007, before the crisis took completions below 20,000 in 2010) or 6.6 per thousand of population (compared to 3.8 in the UK – see Figure 16.4), although this is expected to level off. The EC continues to highlight a lack of competition in the construction industry and possible land hoarding as impediments to supply.[14]

Lessons for the UK?

Germany and Sweden developed distinctive housing systems within wider social and economic frameworks. These frameworks have since been reformed in response to economic crisis or perceived failure. The reforms of labour markets and social security systems have tended to boost employment, but also to increase income inequality and poverty. Poverty in these countries is now at similar levels to the UK. Housing systems too have evolved in each country, but in very different ways. Germany has been resistant to homeownership supported by expanding mortgage lending; instead, change has occurred within the rental sectors, with social renting 'melting away' and private renting depending more on real-estate companies. Sweden has largely retained its regulatory framework for the rental sector, but within a context of shortage this has helped to create a highly dysfunctional rental market, which has helped to fuel demand for mortgaged homeownership. In both countries under-supply has become a problem, and with it affordability, especially in high demand areas.

Immediate parallels can be seen with the UK. The sea-change in UK housing policy began in the mid-1970s with the big cuts in social housing investment arising from the IMF crisis, and the Thatcher programme of right to buy, promoting homeownership and deregulating private renting that followed. Eventually shortages emerged and with them came concerns about affordability. The housing systems of all three countries have also been influenced by the new environment of ultra-low interest rates and unorthodox monetary policy.

The developments in Germany and Sweden have a direct bearing on the following aspects of housing policy in the UK:

- *Homeownership:* Germany is unusual, but it does demonstrate that high levels of homeownership are not an inevitable outcome of economic prosperity or indeed necessary for it. If renting is attractive (in terms of quality, price and security) then homeownership is not necessarily the preferred tenure. Long-term low inflation and (until the past 15 years) low house-price inflation are relevant contextual factors. In Sweden, it is widely acknowledged that a dysfunctional rental sector is limiting access and forcing some people into homeownership who would otherwise prefer to rent.

- *Private renting:* The attractiveness of renting in Germany can be attributable to the way in which the sector developed over the past 60 years with a respect for the market and the rights of tenants. Supported by subsidy, landlords were obliged to provide security and to let to people within income limits. As shortages eased, regulations were loosened, but the market nonetheless remained a 'social' one with tenants enjoying security and protection from excessive rent rises.

- *Rent controls:* More recent rent controls in Germany, which target the rent initially charged, and the proposed 'freeze' in Berlin, are indications of a market that is ceasing to function as intended. They are not signals of success. Sweden demonstrates that in circumstances of shortage, the historic system of rent control creates a two-tier system in which 'insiders' benefit from security and controlled rents, whilst outsiders either have to pay inflated market rents in the secondary market, or opt for homeownership. With reforming the rental sector very much on the agenda in the UK, the lessons are clear: it is possible for tenants to enjoy much higher levels of protection in terms of security and limits to excessive rent rises than is the case now in England, but there are clear risks that rent caps can be counterproductive since they are likely to contribute to scarcity, diminish incentives to move, and consequently privilege tenants who are inside the system at the cost of those who are outside it. Markets in second-hand tenancies in Sweden are an egregious example of this.

- *Institutional landlords:* In the UK there is a well-established narrative that denigrates 'amateur' small-scale landlords, whilst the build-to-rent lobby claims it would provide a superior 'professional' service.[15] It is notable that in Germany, which has a substantial small-scale landlord sector alongside an institutional one, public protests have been directed at the large-scale landlords, which exercise substantial market power.

- *Supply:* Undersupply has been a problem in Germany and Sweden as well as in the UK. A much more detailed study would be needed to identify possible policy transfer, but it is clear that it is treated as being a multi-faceted problem. Whilst there have been reforms to planning in both Sweden and Germany, the problem of undersupply is attributed to a range of factors including lack of competition in the construction sector, land hoarding and labour shortages. Sweden, in particular, has adopted modern methods of construction.

- *Social rented housing:* The private sector has difficulty in meeting shortages alone, and social renting clearly has a role to play. Twice in the last 30 years the Germany government has attempted to withdraw from subsidising social rented housing, and twice it has had to reverse its planned policy.

- *Allocations:* 'Housing for all' approaches to social sector allocations work only where there is sufficient supply and are greatly eased by low levels of poverty. Maintaining non-selective allocations when there are acute shortages and when poverty is high, means that lower income households are excluded. Turning landlords into mainstream market operators, as has happened with the municipal housing companies in Sweden, risks explicit rules being introduced to exclude anyone seen as a financial risk. Some municipal housing companies effectively operate what in the UK used to be called 'No DSS' policies.

- *Housing allowances:* It is sometimes suggested that UK housing benefit is unusually generous (because it can meet all of the rent) and hence expensive.[16] This is an erroneous analysis derived from looking only at other countries' formal housing allowance systems whilst ignoring the help that is provided through social assistance. In Sweden and Germany, social assistance can also meet all of a household's rent. Figures are hard to obtain, but those from Germany suggest that the whole package of assistance is substantial, even if somewhat less expensive than in the UK.

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Chapter 17

'Building back better' after Covid: lessons for housing policy from the 'lost decade'

Mark Stephens

UK Housing Review 2021

In the past 15 years the UK – and the rest of the world – have experienced two seismic shocks to the economy. The global financial crisis (GFC) which began with the credit crunch in 2007 was regarded as a once-in-a-lifetime event, only to be followed by the Covid-19 pandemic in 2020. There are, of course, important differences between the crises. The GFC began within the financial system and induced a severe recession, whereas Covid caused governments to impose lockdowns that restricted economic activity and led to dramatic contractions in the economy. Nonetheless, the severity of the economic contractions, the requirement for governments to take countervailing action in the midst of the crisis, and the widely held belief that a return to the pre-crisis status quo was improbable, all invite comparison. How did policy makers and institutions respond to the crises in the short term? And, in the case of the GFC, how did they do so in the longer term?

This chapter provides an overview of the GFC and its aftermath. It shows that pre-existing problems in the housing system were exacerbated by responses to the GFC and that system-wide coherence in housing policy has been lost. Covid has brought an array of short-term interventions, but the experience of the lost decade that followed the GFC demonstrates that the same mistakes should not be repeated post-Covid. It ends with some suggestions as to how the housing system could be reformed.

It is structured as follows:

- an overview of the global financial crisis and short-term responses to it
- a review of longer-term responses to the GFC, including regulation of mortgage lending, planning, Help to Buy and austerity
- impacts on the housing market, including mortgage lending, housebuilding, house prices and tenure change
- responses to Covid and key areas requiring long-term reform.

The global financial crisis

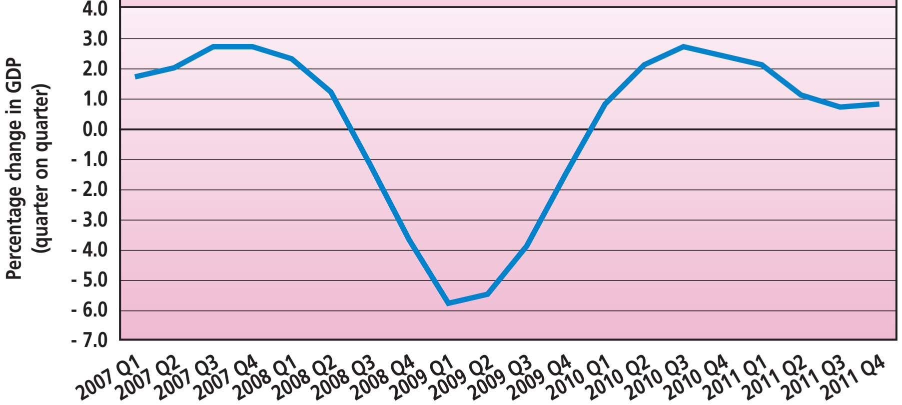
The global financial crisis grew out of the post-Cold War world which witnessed the growth in global trade, including the opening-up of the Chinese economy, the integration of financial systems, and a consequent shift towards low inflation and lower interest rates. This restructuring of the world economy facilitated a long period of steady economic growth in the west, which in almost all countries was accompanied by a house-price boom and growing mortgage debt. The proceeds of growth were shared unequally. Thomas Picketty noted the reversion to the historic trend of returns from capital outweighing those from labour, much of this attributable to house prices as lower- and middle-range wages lagged.[1] Others argued that this prompted politicians in some countries to support the expansion of homeownership to lower-income households to compensate for stagnant earnings.[2]

The crisis itself was triggered by the rising number of defaults in the US sub-prime mortgage market. Having been financed principally by securitisation, and frequently supported by manifestly unsafe credit ratings, the wholesale markets froze in August 2007 amid a climate of mutual mistrust. This 'credit crunch' was the precursor to the GFC. In the UK, the immediate impact was felt by Northern Rock which had adopted an aggressive expansion strategy partly based on securitisation, leading to a liquidity crisis and ultimately the nationalisation of the bank. More broadly, the Bank of England injected liquidity into the banking system in the hope that it would boost lending, whilst three of the largest banks were recapitalised from the market between April and May 2008. A full-blown banking crisis was prompted by the collapse in October 2008 of Lehman Brothers, a US investment bank with substantial holdings of sub-prime mortgages, marking the point at which the credit crunch morphed into the global financial crisis.

Macroeconomic response

Faced with what was then an unprecedent fall in GDP (Figure 17.1), the government had no alternative but to increase borrowing to finance government expenditure. Public sector net borrowing rose from under three per cent of GDP in 2006/07 to a peak of just over ten per cent in 2009/10. Indeed, for five successive years, the deficit was higher than in any other year since 1945. Inevitably, public sector net debt followed as annual deficits accumulated, in effect doubling from 40 per cent of GDP to 80 per cent.

Figure 17.1 **Economic growth and the global financial crisis, 2007-2011**



Source: ONS.

The crisis also prompted the Bank of England (BoE) to cut interest rates in stages from 5.75 per cent in 2007 to an historic low of 0.5 per cent in 2008, with a further cut to 0.25 per cent in 2016 in response to the EU referendum result (see Commentary Chapter 1 in the 2020 edition of the *Review*). In common with other central banks, the BoE also ventured into 'unconventional' monetary policy by purchasing government and corporate bonds with the intention of freeing-up bank capital for lending and keeping interest rates low, ostensibly to meet the inflation target. A consequence of such quantitative easing is that it places upward pressure on asset prices, including house prices.[3]

The banking crisis and bank rescues

As bank shares collapsed following the failure of Lehman Brothers, the UK responded with a second round of bank recapitalisation (whereby the government purchased preference shares in eight banks); the injection of liquidity into the banking system (as the central bank issued short-term loans to the banks), and government guarantees for existing bank loans.

Further assistance was granted in January 2009, when an asset protection scheme was introduced. This was aimed at banks' 'toxic' assets, allowing them to pay (with cash or shares) for existing assets to be insured by the government. Limited information is available, but of the £260 billion of assets that one bank (LBG) placed in the scheme, some 28.5 per cent were residential mortgages.

Despite these measures, banking rescues and nationalisations were necessary. In September 2008, the largest mortgage lender, HBOS – with a 20 per cent share of the mortgage market – was taken over by the relatively strong Lloyds to form Lloyds Banking Group (LBG).[4] However, LBG was weakened by the acquisition of HBOS; the government took a minority share in the bank in October 2008 and a majority share in March 2009. HBOS's exposure to the property market was a significant factor in this weakness and in the problems encountered by LBG (see asset protection scheme, above). The government also took a majority share in RBS in October 2008 (though its failure was precipitated by RBS's acquisition of the Dutch insurance company, AIG, at the peak of the market). It fully nationalised Bradford & Bingley (a former building society that had specialised in buy to let lending) in September 2008.

The nationalised banks were managed through a separate agency; the government made it clear that it did not wish to be involved in their operation and has begun the process of privatisation. Meanwhile the Dunfermline Building Society collapsed in March 2009, attributable to its entry into commercial property prior to the crisis. Its core assets were obtained by Nationwide Building Society with government help.

Protecting homeowners and supporting the housing market

Fears that there would be a repeat of the mortgage arrears and possessions crisis of the early 1990s led the government to act quickly to protect homeowners.

Earlier attempts to persuade mortgagors to take out private insurance by increasing the waiting time for state support (SMI – support for mortgage interest) to 39 weeks and limiting support to the first £100,000 of a loan had only limited success. The government reduced the waiting period to 13 weeks and increased loan eligibility to £175,000 from April 2009. However, support was time-limited to two years. A pre-action protocol was also introduced which required lenders to exhaust other options before courts would grant a possession order. Further support included a mortgage guarantee scheme that was intended to facilitate the transfer of borrowers onto interest-only or other more affordable mortgages.

In the event, levels of arrears and possessions were lower than had been feared. Nonetheless, repossessions rose from 19,900 in 2006 to a peak of 44,100 in 2009 before falling to 27,000 in 2012 (see Compendium Table 50), although this was lower than the previous peak in the early 1990s. Undoubtedly, the measures put in place to support borrowers helped. For example, the numbers of recipients of SMI peaked at 241,000 in 2010/11, and this was mostly explained by the rise of claimants in receipt of unemployment-related benefits (see Compendium Table 106b). However, the impact of the recession on unemployment was much less than had been expected, and a crucial difference with the situation in the early 1990s was that mortgage interest rates were lower and reduced further. This not only made interest payments less onerous on mortgagors, it also reduced the cost to lenders of retaining mortgages in arrears on their balance sheets, so facilitating forbearance.

Actions to support the housing market more generally included an expanded affordable homes programme and the increase in the threshold for stamp duty land tax from £125,000 to £175,000 from September 2008 to the end of 2009. This latter measure appears not to have halted the decline in transactions, but did bring them forward as the deadline for withdrawal approached, with the result that they fell again afterwards.[5]

On the supply side, government-sponsored shared-equity schemes such as HomeBuy Direct (introduced in 2010) and FirstBuy (2011) gave way to the much more significant Help to Buy in 2013, which is discussed below. When the *UK Housing Review* first started monitoring overall government support for the private housing market in 2015, it recorded 17 different schemes totalling around £20 billion (mainly in loans and guarantees), intended to revive the sector.

Responses to the GFC

In the decade that followed the GFC, the lack of housing strategy became increasingly clear. Inevitably, the most urgent responses to the GFC focussed on reforming the regulatory framework for banking and mortgage lending. However, as this section demonstrates, austerity drove government policy towards affordable housing and housing benefit, whilst Help to Buy became a sticking plaster.

Regulation of mortgage lending

The GFC highlighted weaknesses in the banking system generally, and especially in the mortgage market, including the regulatory frameworks. Indeed, in the early days of the crisis, a parliamentary enquiry condemned the 'reckless business model' adopted by Northern Rock and concluded that the Financial Services Authority (FSA) had 'systematically failed in its regulatory duty to ensure that the Northern Rock would not pose a systemic risk'.[6] Reforms were introduced following two reviews initiated by the FSA, the Turner Review and the Mortgage Market Review.[7]

The Financial Policy Committee (FPC) is charged with 'protecting and enhancing the resilience of the UK financial system'[8] and particularly to monitor banks' actions in order to remove or limit systemic risks within the aims of economic policy. Consequently, it may recommend or direct the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) to place limits on mortgage lenders' balance sheets. From 2014, it advised the PRA and FCA to ensure that mortgage lenders do not advance more than 15 per cent of their new residential mortgages with loan-to-income ratios at or above 4.5. Powers were initially limited to homeowner mortgages but were later applied to the buy to let sector. Further, the international standards for banks' capital adequacy requirements ('Basel III') were tightened by requiring banks to establish a counter-cyclical buffer.

Meanwhile the rules governing mortgage lending in the UK were strengthened as a result of the Mortgage Market Review. From April 2014, the following assessments have been required:

- all income must be documented
- lending decisions must be made after an assessment of affordability, based on the borrower's net income and major financial commitments
- affordability is subject to an interest-rate stress test, currently set at three per cent

- interest-only mortgages will be allowed, but affordability will be assessed on the basis of a capital and interest mortgage
- sub-prime loans are not banned, but they must be affordable.

The macro-prudential and, in particular, micro-prudential regulations put in place in response to the GFC fundamentally reversed the presumption in favour of deregulation in the mortgage market, accepting that a shift back down the risk curve required more restrictive access to mortgage finance. However, according to the BoE policy statement, this framework is designed to protect the banking system and to a lesser extent safeguard economic growth. It does not have housing policy objectives.[9] (N.B. For the latest on mortgage regulations, see Commentary Chapter 3 of each year's *Review*.)

Planning and private housebuilding
Broader housing strategy can be seen as a continuation of the emphasis on increasing the rate of housebuilding for the private market, which emerged following Kate Barker's reviews of housing supply and planning.

After an initial reaction against the regional targets established by the Labour government, the Conservatives have largely adopted the view that the planning system is the main barrier to new development. The Letwin Review, which examined slow build-out rates on sites with planning permission, may have suggested a more critical approach to the housebuilding industry, but this seems to have been an ephemeral concern to government (see discussion in previous editions of the *Review*[10]). Instead, government strategy in England has culminated in the current proposals to shift away from the discretionary planning system to one based on zoning, with nationally set housebuilding targets for each local authority.

Help to Buy
Help to Buy (HtB) grew out of short-term responses to the GFC to become, after housing benefit, the principal government housing initiative in terms of public resources, throughout the post-GFC period. It has functioned as a multi-purpose sticking plaster to compensate housebuyers for the limitations on mortgage credit and high house prices, whilst being of considerable financial assistance to housebuilders.

Introduced in England in 2013, it provides an equity loan for purchasers of properties for homeownership of up to 20 per cent (40 per cent in London) of a property's value, so long as the buyer can put down a deposit of five per cent. Although the scheme is intended in part to address the lack of availability of high loan-to-value ratio mortgages, it is not targeted on first-time buyers, but is restricted to new-build properties. HtB, along with its Welsh and Scottish counterparts, was assessed in detail in 2020's *Review* (see Commentary Chapter 6). The *Review* showed that its cost in England is expected to reach almost £30 billion by the time it ends in 2023, that it inflates house prices in high-demand areas, and is a huge support to the housebuilding industry, accounting for between 36 and 48 per cent of total sales of five of the six largest housebuilders. The scheme also gives the state a significant stake in the housing market and potential exposure to falls in house prices. (N.B. HtB has now ended.)

Austerity and ideology
Otherwise, housing policies were largely influenced by the priority given by the coalition and subsequent Conservative governments to reducing the public sector deficit, generically referred to as 'austerity'.

Public expenditure support for affordable housing, which had been increased during the GFC, was cut back (see Compendium Table 66) and higher rents (consistently referred to in the *Review* as Affordable Rents) were introduced in England, predicated on lower grant subsidies for new build.[11] The sector continued to decline in England as the right to buy was 'enhanced'. There was also an ideological shift culminating in the controversial 2016 Housing and Planning Act that included measures that would have led to the sector to become (in the words of Lord Kerslake), a form of 'temporary welfare provision'.[12] These included obligatory fixed-term tenancies and a 'pay-to-stay' policy for higher-income social renters. In the event, these and other measures were abandoned or not enacted (see Contemporary Issues Chapter 2 of the 2019 edition of the *Review*), whilst the Homelessness Prevention Act increased local authorities' obligations towards non-priority need homeless people. Different priorities have been followed in the devolved nations, with right to buy ended in Scotland and Wales, and bigger affordable housing programmes introduced.

Social security was targeted for savings, including the housing benefit bill which had grown to more than £20 billion annually – making it by far the largest expenditure subsidy to housing. In the private rented sector, savings included reducing the local housing allowance limit from the median of the broad rental market area to 30 per cent, uprating this first only by inflation and then freezing it. The age where the shared accommodation rate applies was increased from 25 to 35. The 'abolition of the spare room subsidy' (commonly known as the 'bedroom tax') was introduced in the social sector. Broader limitations on eligibility through the two-child limit and benefit caps also reduced the cost of housing assistance. The system that had largely guaranteed a minimum level of income for households after paying their rent has been transformed: tenants are increasingly expected to contribute to rent from already inadequate levels of non-housing benefits. Although of relatively little importance to public expenditure, support for mortgage interest has been replaced by a loan scheme, which has greatly reduced the numbers of homeowners receiving support.[13] Not surprisingly the period of austerity has seen a rise in destitution, manifested in an increase in rough sleeping and in dependence on foodbanks.

Although the private rented sector grew and in England overtook the social rented sector, strengthening of tenure security was promised but not enacted by the time Covid struck. The sector was reformed in Scotland in 2017, where tenure security was greatly increased on new tenancies. However, regulation and policy have impacted on the private rented sector in other ways. The Prudential Regulation Authority extended the same underwriting standards to private landlords as to homebuyers in 2017, so affordability assessments and interest-rate stress tests were employed. This reduced the advantage that landlords had enjoyed in terms of access to interest-only mortgages. The tax treatment of rental income also changed from 2017/18, for example phasing out interest deduction at anything other than the basic rate of tax. Meanwhile a surcharge was introduced on stamp duty land tax (and equivalents in Scotland and Wales) in 2017/18, whilst most first-time buyers were exempted.

Impacts on the housing market

In the decade between the GFC and the pandemic the housing system operated in a new context of slow economic growth, weak earnings, fiscal austerity, low inflation and very low interest rates. As the previous sections showed, the mortgage industry was subject to a more restrictive regulatory environment, whilst housebuilding was given continued government support through planning concessions and Help to Buy.

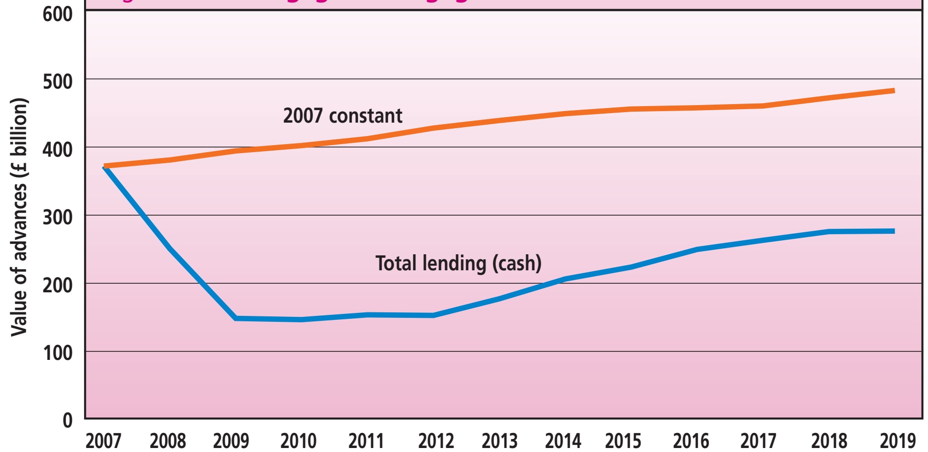
This section examines how these changes affected the housing market and wider housing system.

Mortgage lending

The key factors that influenced the level and pattern of mortgage lending were the new regulatory environment combined with very low interest rates that made borrowing attractive. Overall lending recovered, but not to the levels seen before the GFC. And the uptake of lending between different groups also varied.

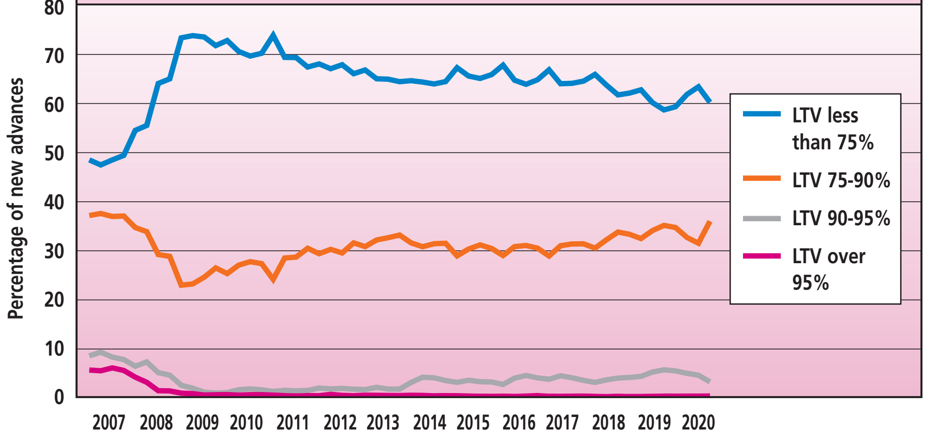
The value of mortgage lending collapsed from £372 billion in 2007 to £146 billion in 2010, and only really recovered after 2012, rising to £276 billion in 2019 (Figure 17.2). In cash terms this was 75 per cent of the 2007 level, but in real terms it was only 57 per cent of the 2007 value of lending. Further, the rate of recovery had slowed towards the end of the period.

Figure 17.2 **Mortgage lending: gross advances, 2007-19**



Source: Calculated from Bank of England/ FCA MLAR tables; ONS.
Note: '2007 constant' is 2007 lending uprated by inflation.

Figure 17.3 **Mortgage loan-to-value ratios, 2007-2020**

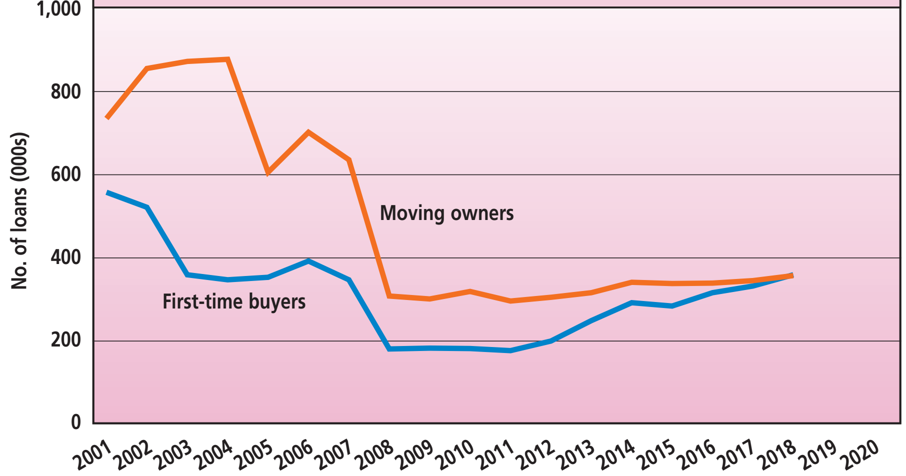


Source: Bank of England/FCA MLAR tables.

The size of loans in relation to property value reflect greater caution on the part of lenders as well as regulatory change (Figure 17.3). The proportion of loans advanced at less than 75 per cent of property value (under 75% LTV) rose from half to 70 per cent, and then drifted down to around 60 per cent. Those between 75-90% LTV fell from almost 40 per cent to almost 20 per cent of loans, before recovering to just over 30 per cent. However, mortgages between 90-95% LTV, which had accounted for ten per cent of the total before the crisis, fell sharply in numbers and on the eve of Covid made up around five per cent of the market. Those above 95% LTV, which accounted for about six per cent of loans before the crisis, have almost disappeared. The numbers of mortgages advanced to existing owner-occupiers moving house and to first-time buyers fell dramatically during the GFC (Figure 17.4). In the case of existing owners, the recovery has been very muted and the number has been relatively flat for five years, reaching only 57 per cent of the 2007 level in 2018. As the chart shows, the numbers of loans to moving owners was already lower in 2007 than it had been in 2001, although there was some volatility.

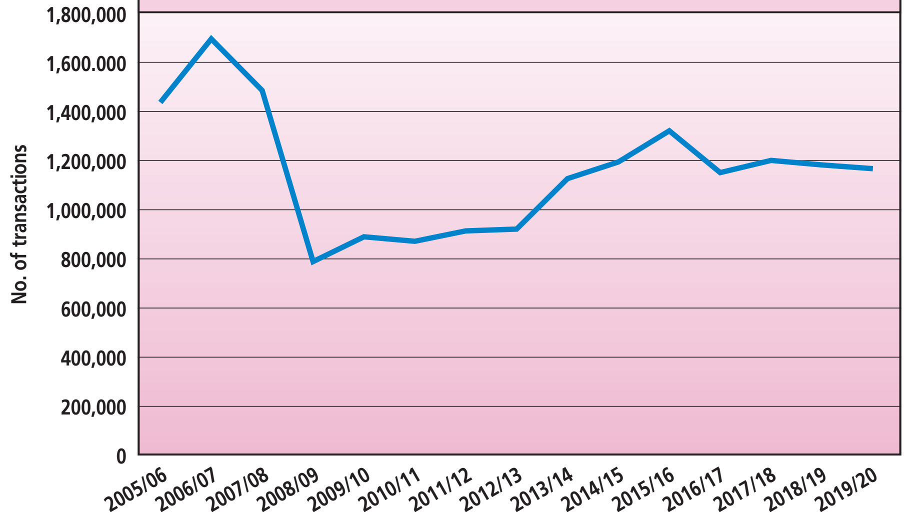
The movers figures reflect the fall in transactions (Figure 17.5). From a pre-crisis peak of 1.7 million in 2006/07 they fell to half this figure in 2011/12. The numbers of transactions have since risen but have stagnated at around 1.2 million over the past few years, representing less than 70 per cent of the pre-crisis peak.

Figure 17.4 **Advances to first-time buyers and moving owners, 2001-2018**



Source: Compendium Tables 43a and 43c.

Figure 17.5 **Residential property transactions, 2005/06-2019/20**



Source: HMRC. Note: Does not include small transactions (under £40,000).

This is consistent with the maturing of the owner-occupier market as the average age of owners rises and fewer people trade up, although reforms to transaction taxes, which have become more progressive, may have also had a role in deterring mobility.

The numbers of first-time buyers also fell during the GFC but has caught up with the smaller number of movers (Figure 17.4). However, there has been a longer-term fall in the numbers of first-time buyers which were over 500,000 at the turn of the millennium. The figure of 370,000 in 2018 was comparable to the 2007 figure, but it should be remembered that this was insufficient to prevent homeownership from falling, particularly in younger age-groups.

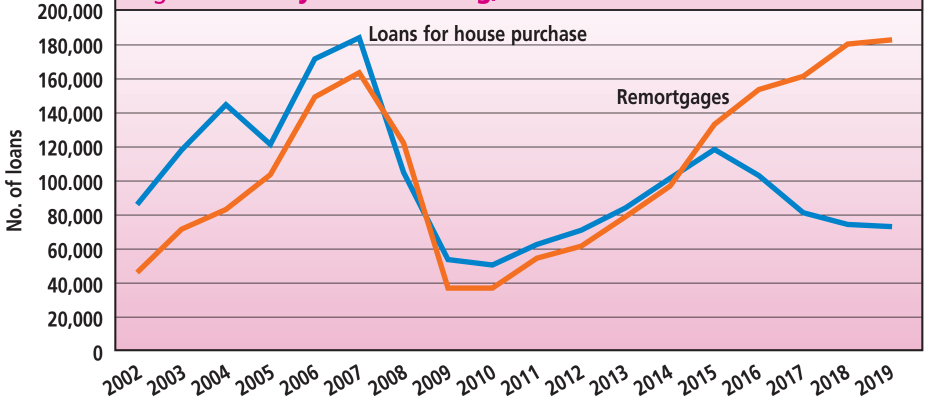
Lending to the buy to let (BTL) sector experienced a precipitous decline due to the GFC, but also recovered strongly before lending for house purchase fell again after 2015, whilst re-mortgaging activity continued to grow (Figure 17.6). The initial recovery is consistent with landlords being well placed to put down deposits in order to secure relatively cheap finance, which at this point they could still obtain on an interest-only basis (in contrast to owner-occupiers). Some policy changes were intended to tilt the playing field in favour of homeowners, particularly first-time buyers, and regulatory changes had the same effect. However, the number of BTL loans for house purchase had begun to decline before the tax and regulatory changes began to take effect in 2017, suggesting that the market may have peaked in any case.

Help to Buy

Given the recovery in lending to first-time buyers, combined with reduced availability of high LTV mortgages, Help to Buy became an important element in the post-GFC housing system. Since its introduction in 2013 the HtB shared-equity scheme, which is restricted to new dwellings, has acted as a lubricant for both the mortgage and housebuilding sectors. From a purchaser's perspective, it eases the restrictions imposed by mortgage regulation that have reduced their access to high LTV mortgages. However, these were already effectively restricted by high house prices: the affordability constraint became binding before the LTV constraint. Since its introduction in England in 2013, HtB has been taken up by approaching 280,000 households, with perhaps another 22,000 from Wales and Scotland. Although not limited to first-time buyers, they are the dominant users, accounting for more than 80 per cent of the total.

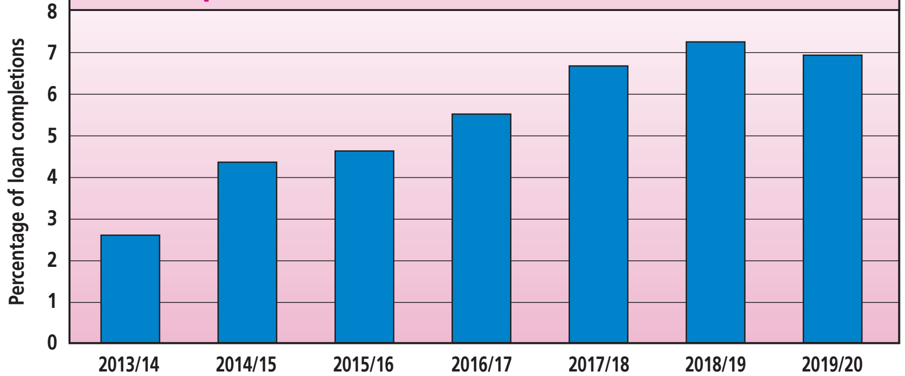
Between 2013 and 2020, HtB in Great Britain accounted for about 5.4 per cent of mortgages approved for house purchase (by number). Other shared-equity schemes would nudge the figure over 5.5 per cent. But as Figure 17.7 shows, the proportion grew from 2.6 per cent in 2013/14 to 7.3 per cent in 2018/19, before falling back to 6.9 per cent in 2019/2020. We estimate that Help to Buy loans for first-time buyers were associated with 10-13 per cent of mortgages for first-time buyers.

Figure 17.6 **Buy to let lending, 2002-2019**



Source: Compendium Table 56.

Figure 17.7 **Help to Buy completions in Great Britain as % of all loan completions, 2013/14-2019/20**



Source: Bank of England and Compendium Table 105a.

Housebuilding

The housebuilding industry was also badly hit by the GFC, and consequently continued its long-term tendency to become more concentrated. Housebuilding is examined in Chapter 2 of the *Reader*, which establishes that growing concentration of the sector coincided with average output (in England) declining over the decades from 300,000 units annually in the 1960s to 130,500 in the 2010s, falling far short of the 340,000 units required.

The industry's priority in the GFC and its immediate aftermath was to maximise cash flow to avoid liquidation. Thereafter they prioritised profit over volume by adopting 'de-risking' strategies, notably focussing on greenfield sites with straightforward infrastructure requirements and where uncomplex standardised houses could be built, areas where planning permission was likely to be relatively easily obtained and areas where they could rely on rising house prices.[14] This strategy reflects housebuilders' business model that requires land to be purchased some years in advance of sales being made, which is inherently uncertain. Their strategy also appeared to rely increasingly on buying more large sites that could each be built out at a rate that would not depress prices and threaten profitability. The industry also benefited from Help to Buy, which accounts for between 36-48 per cent of total sales of five of the six largest housebuilders.

House prices and affordability

This section examines trends in the house prices and affordability of owner-occupied housing. Table 17.1 presents house-price levels and trends using the long-running Nationwide price index. It shows how prices have changed across the nations and regions between the third quarter of 2007 when prices peaked nationally, and the most recently available figures in the last quarter of 2020. Further, since prices use an index whereby the first quarter of 1993 is 100, we can also compare prices in 2007 and 2020 with 1993, which was around the beginning of the cycle that peaked in 2007. The table also shows if and when prices returned to their Q3 2007 peak.

By the time nominal and real prices peaked in the third quarter of 2007, mortgaged ownership was already falling as people were being priced out of it. Across the UK as a whole, cash prices were 3.67 times higher than in 1993 in the third quarter
of 2007. The greatest increase was in Northern Ireland where cash prices were 6.6 times their 1993 level (due to the 2005-07 spike), followed by London where they were 4.5 times higher. The smallest increase was in the North where they rose by 2.8 times. In real terms, house prices were 3.4 times higher across the UK.

Table 17.1 **Nominal and real house prices, 2007 and 2020**

	North	Yorks and The Humber	North West	East Midlands	West Midlands	East Anglia	Outer South East	Outer Metropolitan	London	South	Wales	Scotland	Northern Ireland	UK
Nominal (Q1 1993 = 100)														
Q3 2007	**294.5**	**318.6**	**307.8**	**346.1**	**316.6**	**363.2**	**395.5**	**373.2**	**451.8**	**378.9**	**317.3**	**290.6**	**659.4**	**367.3**
Q4 2020	**301.0**	**351.0**	**342.4**	**443.2**	**398.2**	**479.8**	**544.1**	**545.0**	**726.8**	**490.3**	**350.8**	**298.8**	**432.1**	**458.5**
% change	**2.2**	**10.2**	**11.2**	**28.1**	**25.7**	**32.1**	**37.6**	**46.0**	**60.9**	**29.4**	**10.5**	**2.8**	**- 34.5**	**24.8**
When reached Q3 2007	**Q4 20**	**Q3 2018**	**Q2 2018**	**Q3 2014**	**Q2 2015**	**Q2 2014**	**Q1 2014**	**Q3 2013**	**Q1 2013**	**Q2 2014**	**Q2 2018**	**Q2 2020**	**N/A**	**Q2 2014**
Real (Q1 1993 = 100)														
Q3 2007	**268.7**	**292.8**	**282.0**	**320.3**	**290.8**	**337.4**	**369.7**	**347.4**	**426.0**	**353.1**	**291.5**	**264.8**	**633.6**	**341.5**
Q4 2020	**246.2**	**296.2**	**287.6**	**388.4**	**343.4**	**425.0**	**489.3**	**490.2**	**672.0**	**435.5**	**296.0**	**244.0**	**377.3**	**403.7**
% change	**- 8.3**	**1.2**	**2.0**	**21.3**	**18.1**	**26.0**	**32.4**	**41.1**	**57.7**	**23.3**	**1.5**	**- 7.9**	**- 40.5**	**18.2**
When reached Q3 2007	**N/A**	**Q4 2020**	**Q4 2020**	**Q2 2016**	**Q2 2017**	**Q3 2014**	**Q2 2014**	**Q4 2013**	**Q1 2013**	**Q3 2015**	**Q4 2020**	**N/A**	**N/A**	**Q3 2015**

Source: Calculated from Nationwide index.

After 2007, prices fell everywhere, but the recovery began in London where cash prices returned to their pre-crisis peak as soon as the first quarter of 2013. Broadly, the recovery in house prices spread out from London. Cash prices reached their pre-crisis levels in the South West, Outer South East, and East Midlands in 2014, and the West Midlands followed in 2015. However, this did not occur in Wales, the North West and Yorkshire & Humberside until 2018; and until the last quarter of 2020 for Scotland and the North. House prices in Northern Ireland remain substantially below their 2007 peak.

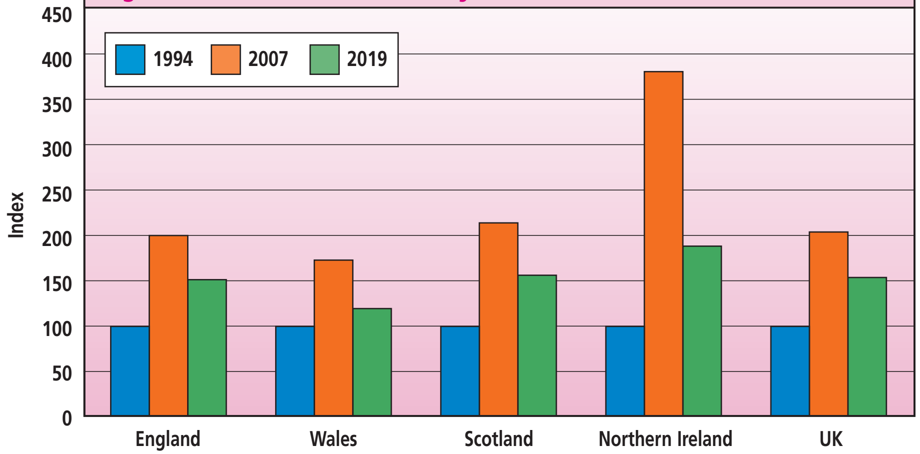
Obviously, it often took longer for real prices to reach 2007 levels. Across the UK as a whole this occurred in the third quarter of 2015, but there have been marked national and regional variations. Whilst UK real prices have grown by approaching one-fifth since 2007, in London they are 58 per cent higher now than in 2007 and they are a third higher in the Outer South East. In contrast, they are lower now in Scotland and the North (by about eight per cent) and in Northern Ireland (by 40.5 percent); they are only very marginally higher in Yorkshire and The Humber, the North West and Wales.

House prices compared to 2007 therefore tell a complex story, yet a perception remains that housing is expensive. Part of the answer may lie in the 'money illusion' – mistaking cash rises for real ones. But what remains true across the whole of the UK is that real house prices are substantially higher now than in the early 1990s. They are four times higher across the UK as a whole – and even in Northern Ireland 3.8 times higher. There is, of course, more to housing affordability than prices (incomes, interest rates and mortgage availability matter, too). But we might question whether the housing market 'corrected' as fully as was necessary to restore affordability after the GFC. This is illustrated very clearly by the Nationwide house-price-to-earnings ratios. Again, we emphasise these are not a complete guide to affordability overall, but they illustrate both the regional/ national divergence following the GFC and also the higher 'floor' beneath which prices did not fall anywhere after the GFC, in contrast to the boom and bust of the late 1980s and early 1990s.

High house prices in relation to incomes place a break on access to owner-occupied housing, but the affordability constraint is weakened if servicing costs are reduced by lower interest rates or rising incomes. Real earnings were lower in 2018/19 than in 2007/08,[15] but interest rates have fallen as part of macroeconomic policy. The *UK Housing Review* Affordability Index seeks to capture the three vital elements that determine the ease of entry into homeownership: house prices, interest rates and incomes (Figure 17.8). For these purposes, the index is based on the simple average price of housing in each nation or region, the cost of a 25-year repayment mortgage at average prevailing mortgage interest rates and the long-term average LTV of 82 per cent, and the average gross income of one person in full-time employment. We caution that this is only a guide to affordability. Not only are figures averages, but the index assumes a single full-time income, whereas there are in reality a very wide range of employment types within households, including dual full-time earners, people on zero-hours contracts, people who are self-employed, etc.

Nonetheless, it captures the essence of what has been going on. In every nation (and indeed English region), affordability improved between 2007 and 2019. However, homeownership was falling in 2007. When 1994 – the start of the long period of house-price growth that preceded the GFC – is used as a benchmark, homeownership was less accessible in 2019.

Figure 17.8 **UKHR Affordability Index, 1994, 2007 and 2019**



Source: UKHR Affordability Index, Compendium Table 45a.
Note: 1994 = 100; the higher the index, the less affordable is homeownership.

The housing system on the eve of Covid

The period between the GFC and Covid largely witnessed the continuation of trends that were established before the GFC (Figure 17.9).

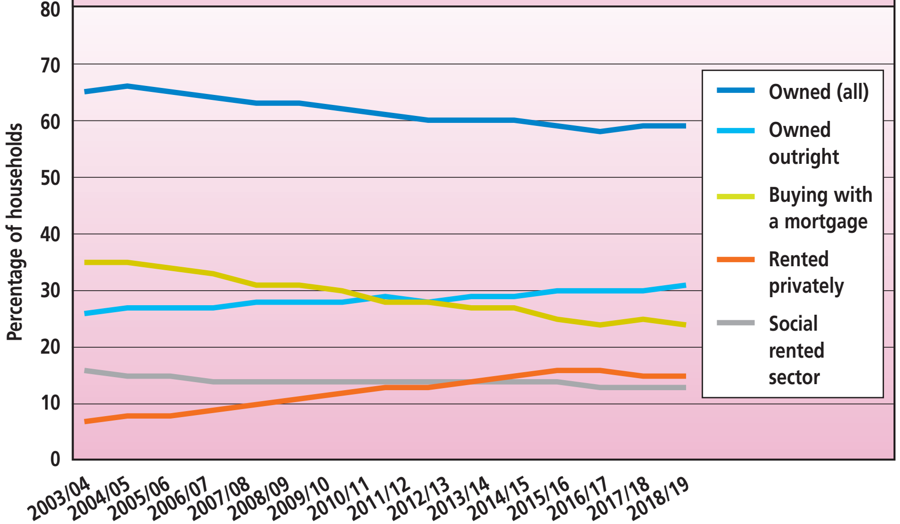
The tenure breakdowns are based on households and are derived from the Family Resources Survey. A change in a single year should be treated with some caution, but the trends over time are clear. The pattern over the 2003/04 to 2018/19 period features declining homeownership overall (from 69 down to 63 per cent), which disguises the fall in mortgaged ownership (from 39 per cent to 28 per cent), outweighing a rise in outright ownership (from 30 up to 35 per cent). Private renting grew rapidly (from 11 to 19 per cent) and overtook social renting which declined gradually (from 20 down to 17 per cent). However, a picture emerges towards the end of the period of some stabilisation in levels of mortgaged ownership and of private renting.

Figure 17.10 provides an age profile of mortgaged homeowners as this is suggestive of future trends in homeownership. Mortgage ownership declined in every age band (overall by 12 percentage points over 2002/03 to 2019/20). However, the largest fall was in the prime 25-34 age band: the drop was a full 24 percentage points from 59 per cent to 35 per cent. The 35-44 age band shows a decline from two-thirds to one half, and the 16-24 band from one-fifth to five per cent (although this figure is volatile due to the small sample). As with the overall figure there does appear to be some bottoming out in the latter part of the period.

Summary: the lost decade

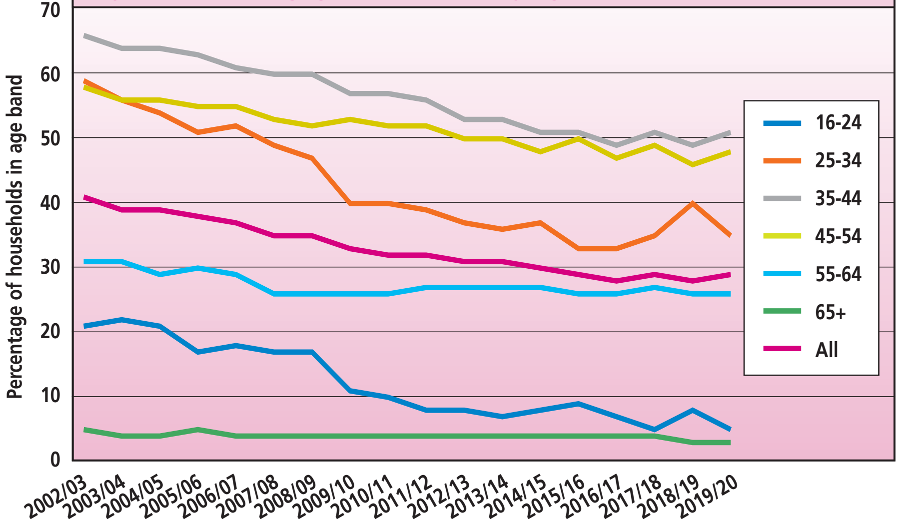
In summary, the housing system on the eve of Covid lacked any overall coherence and in retrospect the period bookended by the GFC and Covid resembles a lost decade. Monetary policy created conditions of very cheap money, and an incentive to invest in housing, but the regulatory priority to ensure prudence in the financial system created uneven access to cheap finance. Fiscal policy weakened state safety nets and continued to reduce investment in and access to social rented housing, whilst earnings remained weak. In these conditions private renting continued to grow, but (at least in England) remains on a highly insecure basis that makes it unsuitable for the long-term housing of many of the households who now depend

Figure 17.9 **Housing tenure in the UK, 2003/04-2018/19**



Source: Family Resources Survey.

Figure 17.10 **Mortgaged ownership by age, 2002/03-2019/20**



Source: Family Resources Survey.

on it. The government's long-term strategy remained that of creating the conditions to restore the supply of market housing, whilst doing nothing to reform the industry whose business model is predicated on controlling build-out rates in order to prevent prices falling. In the interim, a series of ad hoc measures have been deployed: taxing private renting less favourably to tilt the playing field towards homeowners and the state becoming an investor in new build properties, both to make up for the lack of mortgages at high LTVs and to support the housebuilders.

Responding to Covid

This section examines, first, the short-term responses to Covid, and then the longer-term responses that are needed to tackle underlying issues in the housing system that were not addressed following the GFC.

Short-term responses to Covid-19

The government's short-term response to Covid has mirrored some of the actions taken in response to the GFC. In the short term, the government has borrowed heavily – even more so than after 2008 – to support incomes and businesses effectively prevented from operating by lockdown measures. The Bank of England cut the base rate, but of course did so from a much lower starting point (0.75 per cent) than was the case in 2008 (5.5 per cent), and it now stands at a new historic low of 0.1 per cent, firmly in negative real interest-rate territory. The quantitative easing programme was also expanded by £450 billion from March to November 2020, doubling the extent it had developed over the previous decade (see Commentary Chapter 1 of each edition of the *Review*).

The private market has been supported principally by recent stamp duty 'holidays' designed by different administrations. These mirror the 2008-10 'holiday' introduced during the GFC, which had the effect of bringing forward transactions to escape the re-introduction of the tax. The easing of the first lockdown in July 2020 led to a sharp bounce-back in the housing market, with transactions in December 2020 being the highest for that month in more than a decade.[16] The Scottish Government has already announced that the stamp duty holiday will finish at the end of March 2021, and it seems that the UK government will follow (N.B. the stamp duty holidays have now ended). However, in contrast to the GFC, there has been no boost to investment in affordable housing, perhaps because the housebuilders have not (yet) experienced the severe collapse in demand and finance they experienced during the GFC.

Individuals have also been protected, primarily through income-support schemes such as furlough. Whilst the LHA rate has been restored to 30 per cent of the local median rent, there has been no enhancement of the loan scheme that replaced support for mortgage interest. Instead, in both rental and homeowner sectors, blanket forbearance policies have been adopted, with the expectation that landlords and mortgage lenders will absorb cash-flow disruption (at the minimum) and possibly losses.

There is, however, no exit strategy and a series of cliff-edges as income-support schemes come to an end and forbearance unwinds. Managing this transition will be a major challenge.

Long-term responses to Covid

Whilst the exit strategy from Covid presents challenges, the crisis has also exposed huge weaknesses in social infrastructure after a decade of austerity. It has especially highlighted the low level at which social security benefits are paid. Particularly in the early weeks of the first lockdown, when there were unusually high levels of social cohesion, there was much discussion about how the country could 'build back better' across the economy and social policy, including in housing.[17]

However, there is also a strong temptation to muddle through and return to 'normal'. If mortgage lenders and private landlords continue to be able to exercise forbearance and to exit from this requirement without causing mass homelessness, and if the housebuilding industry continues to be able to sell its houses profitably, even as Help to Buy is replaced, then there will be a feeling in government that all is well, and they can sit back and wait for the proposed planning reforms to take effect.

This would be a mistake.

This chapter's examination of the decade that was bookended by the GFC and Covid has demonstrated the lack of strategy. Covid provides the imperative for government to reconsider the housing system as a whole and develop a strategy that has been lacking at least since the Treasury commissioned the Barker and Miles reviews, and since it thought carefully about monetary policy and housing in the context of potential membership of the euro in the 2000s.

This chapter ends with some suggestions as to what such a strategy might look like, that are intended to prompt discussion.

The context of monetary policy and housing supply demand the reform of land and property taxation

The move towards ultra-low interest rates supported by QE that occurred as a result of the GFC has intensified as a consequence of Covid-19 and is likely to continue, particularly as the boundaries between monetary and fiscal policy become less clear. The resultant supply of cheap credit and the negative real interest rates on government bonds will encourage upward movements in asset prices, including house prices.

It has been widely accepted since the Barker review that an increase in long-term housing supply is required to improve affordability in the housing market. However, even if housing supply were to be improved (see below), it would take decades before it would have a marked effect on affordability. This is because new supply is only a small part of total supply.

To date, the government approach has been to seek to address affordability problems with demand-side solutions, such as Help to Buy and stamp duty concessions, which do not address the underlying problem, but do contribute to maintaining high prices. A counterbalance to house-price inflation is therefore required in the shape of reforms to land and property taxation. They are needed to counter speculative expectations on both demand and supply sides, and to encourage more efficient use of stock. One of the key reasons for long-term rising prices is the tendency for demand for housing to rise disproportionately with incomes.[18]

The current mix of taxes are a mess, and reform would be beneficial, even without wider benefits. The council tax was designed to be regressive and is still based on 1991 values in England and Scotland. Stamp duty land tax and its equivalents discourage mobility. Ideally, a form of recurrent land-value taxation is desirable as a non-distortionary tax that could replace existing taxes. Transitioning to such a system could begin with the adaptation of the council tax into a proportionate property tax through the step-by-step alteration to the band multipliers, as was begun in Scotland in 2017. Experience shows that reform is possible: revaluation took place in Wales in 2005, and in Northern Ireland a new system of local taxation based on capital values replaced the old rates system in 2007.

The state should take a more active role in housing supply

The current policy of reforming the planning system whilst leaving the housebuilding industry unreformed is unlikely to produce the levels of long-term housing supply required to improve affordability. Limiting supply through build-out rates is an accepted part of housebuilders' business model, along with lack of diversity of product and location. Homes England seeks to address some of these problems, but focuses on the release of publicly owned land.

Part of the problem arises from housebuilders' aversion to building on brownfield sites and in lower-value areas. The state could play a vital role in increasing the supply and diversity of housing by purchasing privately owned land, putting in infrastructure and selling it for development. By carrying some risk, this should widen the availability of sites deemed viable by volume builders by shortening the time between purchase of land and sales, and by removing risk from otherwise uncertain infrastructure costs. It would also facilitate a greater diversity of housebuilder, and allow experimentation with different ownership models (such as community land trusts and self-build) and building techniques (e.g. 3-D design, and modern methods of construction). If land acquisition were to occur at or close to agricultural values (for example through compulsory purchase), it would also create a mechanism for land-value capture that can be used to support affordable housing, or could be recycled into the purchase of other sites.

Rethinking the role of rental housing

The UK government has displayed an erratic approach towards social rented and other forms of affordable housing. The Cameron government sought to marginalise it by turning it into a form of temporary welfare support or 'ambulance service'. The May government rowed back from that, but there is little indication that the Johnson government has a clear view of its purpose. If it continues to decline, as it is in England, then – particularly as demand rises – there is a high risk that the Cameron agenda will be resurrected. This would leave much need unmet, worsen affordability and create greater insecurity.

A long-term strategy for social renting might first begin with strengthening the sector's ability to provide a safety net for people who are unlikely to be able to secure housing of sufficient size and quality in the private sector. If supply increases sufficiently, then its function can broaden into a wider affordability role for a broader section of the community. Particularly in lower-demand areas, where the differences in rents between social and private rental are smaller, then social rented housing can begin to exert pressure on the private sector in terms of rents and standards.

The tenure shift towards private renting has played a significant role in raising poverty rates after housing costs. The rising cost of housing benefit prompted a series of cuts that have weakened this safety net (see below). There is a strong case for shifting subsidy back to the supply-side and to widen access to affordable housing. The ending of right to buy in England, which has happened already in Scotland and Wales, is overdue. Investment in social renting can help to contain poverty, and to reduce housing benefit costs – a form of preventative expenditure. Thinking about expenditure in the round is key to establishing a meaningful rental strategy.

Meantime, private renting is ripe for reform, as it remains largely unchanged outside Scotland. The Scottish example demonstrates that security of tenure can be greatly enhanced, although change has not been as rapid as anticipated.[19] International evidence (and indeed the UK's own experience over the twentieth century) would caution against rent caps, but would support workable rent pressure zones that limit rent increases for existing tenants and sometimes also when tenancies change. The requirements for RPZs in the current Scottish system are too onerous and should be reformed. Whilst it is important to recognise the limits of what regulation alone can achieve, there is an urgent need to increase tenants' security as a first and essential step towards modernising private renting.

Mending the income safety net

A constant theme in the *Review* has been the hardship caused by benefit cuts after 2010. The cuts to housing benefit (and equivalent support in universal credit) have been especially pernicious. The UK social security system was always designed around the assumption that mainstream benefits do not allow for the payment of housing costs. The pandemic has revealed quite how low UK benefit rates are – to the extent that the UK's furlough scheme actually resembles the generosity of a north-west European social insurance scheme – meeting 80 per cent of former earnings up to a limit. If there were a single set of changes that would make a real difference in the short term, they would be the retention of the £20 enhancement to universal credit and the maintenance of the local housing allowance rate at 30 per cent of median rents.

But in the long term, an enhancement of working-age benefit rates is greatly desirable and is supported by the Joseph Rowntree Foundation's Minimum Income Standard, which establishes the budget required for a household to purchase those goods and services (excluding housing) that most people believe everyone should enjoy. UK governments recognised that the state pension was too low and have systematically increased its real value over time. The same approach – which would require a step change in attitudes to social security, public expenditure and taxation to match – would be needed to raise the incomes of the working-age population and their children.

Ending homelessness

The pandemic prompted sweeping changes to homelessness policy, as governments across the UK adopted 'Everyone In' policies to rapidly accommodate people sleeping rough and end the use of communal night shelters. Groups often not given full protection, notably single people and those who have no resource to public funds, were fully included, at least in the early stages.

There is an opportunity to build on such initiatives to aim to end homelessness. Progress has been made across the UK on improving homelessness prevention. There is a need to act rapidly where homelessness occurs in order to limit harm, and the pandemic has highlighted the desirability of ending the use of congregate accommodation such as night shelters and instead move towards rapid rehousing approaches (including Housing First) that prioritise swift access to mainstream accommodation with appropriate support within the wider community. It has also demonstrated the need to tackle the wider 'core homelessness' discussed in Commentary Chapter 5 of each edition of the *Review*, including the ending of rules which deny certain groups access to help, which were quite correctly suspended during the pandemic.

Conclusion

The housing system has experienced two massive shocks in the past 15 years. The global financial crisis spurred emergency actions to protect the housing market, market institutions and homeowners. But subsequent policy, and the context in which it operated, failed to address underlying problems in the market. Instead of a strategic overview of the housing system, and its interconnections with the wider macro-economic framework and wider social system, housing entered a lost decade. Covid has prompted other emergency and short-term actions to protect the housing market, homeowners and tenants. Yet a key lesson of the GFC, repeated during the pandemic, is the need to regain strategic oversight of the housing system as a whole. This chapter has outlined ways that could contribute to this process.

Acknowledgement and notes

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The chapter has also been informed by the author's experience as a member of the Scottish Government Coronavirus (Covid-19) Housing System Policy Circle: https://www.gov.scot/groups/coronavirus-covid-19-housing-system-policy-circle/

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13 See Compendium Table 107.

14 Payne, S. (2015) 'Exploring the impact of the recession on British volume housebuilders: a behavioural analysis', in *Built Environment*, Vol. 41, No. 2, pp.271-288.

15 Calculated from DWP (2020) Household Below Average Earnings, Table 2a.

16 HMRC Monthly property transactions completed in the UK with value of £40,000 or above.

17 The Scottish Government established a Social Renewal Advisory Board to plan for the post-pandemic period, supported by a series of policy circles including the Coronavirus (Covid-19) Housing System Policy Circle. The main SRAB report along with the housing report (under 'supporting files') are here: www.gov.scot/publications/not-now-social-renewal-advisory-board-report-january-2021/

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