

Housing – the issues and how to fix them

The problem

The Government has been moved to extreme language to describe the current state of the housing market. Its 2017 White Paper is titled: "Fixing our Broken Housing Market" and in the foreword, Theresa May sums up the problem thus:

*"Our broken housing market is one of the greatest barriers to progress in Britain today. Whether buying or renting, the fact is that housing is increasingly unaffordable – particularly for ordinary working class people who are struggling to get by. Today the average house costs almost eight times average earnings – an all-time record. As a result it is difficult to get on the housing ladder, and the proportion of people living in the private rented sector has doubled since 2000."*¹

How did we get here?

There are several strands to our present crisis. One factor rarely mentioned is the huge increase in the money supply created by the banks in the decade or so leading up to the Global Financial Crisis of 2008 which led to a tripling of house prices in that period. A lot of money chasing a fairly static supply of housing inevitably meant a huge increase in prices. Since the Global Financial Crisis, Quantitative Easing has pumped yet more newly-created money into the economy, inflating asset prices still further.

A second important strand is the introduction in 1979 of the "Right to Buy (RtB)" – (See Glossary at end of paper). Secure Council tenants were given the opportunity to buy their homes at huge discounts, a practice which continues to this day. Indeed, discounts were increased in 2012 up to a maximum of 70%, encouraging a five-fold increase in sales since then. The public subsidy given to the lucky occupiers in the last six years alone amounts to £3.5bn.² Through the sale of ex-local authority housing stock, more than 1.8m social-rented homes have been lost by the public sector, with many of these – perhaps half – ending up in the private rental sector at much higher rents following onward sales.³

This could have been mitigated had these homes been replaced. But Councils have had to hand over most of the receipts from RtB to Central Government and are only allowed to use 30% of the proceeds of each sale to put towards a replacement property, one which itself will after three years also be subject to the RtB. Council house-building since 1980 has virtually stopped as a result.

One result of the lack of social rented housing has been the big increase in the private rented sector, which is where the typical younger household (age 25-34) now resides. The problems of the private rented sector include high rents and fees, insecurity and poor quality accommodation.⁴ The loss of a private tenancy remains the single biggest cause of homelessness, as landlords can get possession

simply by serving notice.⁵ Tenants in the private rented sector pay on average 39% of their gross income in rent (49% in London) whereas two thirds of owner occupiers pay less than 20% of their income on their mortgage.⁶ High rents make saving for a deposit in order to buy, a virtually impossible task.

The planning system is locally-led, with elected Councillors deciding planning applications, and they can be influenced by their electorate. Frequently the most vocal and articulate opponents of development are those who are already comfortably housed and who do not want to see new development near them. Those who are most in need of new housing tend to be the least politically active and their voices may go unheard.

In the popular imagination, immigration is possibly the most significant factor affecting the housing supply. Whilst it is true that immigration has increased over the past thirty years or so, households containing an individual born outside the UK still make up only 14% of all households, and immigrant households are more likely to live in over-crowded houses, so are occupying relatively fewer homes per person than non-immigrant households.⁷ The housing crisis is not helped by immigration, but immigration is not one of the most significant factors.

The increase in house prices out of all proportion to income has meant that housing is increasingly treated as a commodity. Furthermore, ownership has become concentrated in the hands of older people, fuelling not just wealth inequalities between middle and lower income citizens, but between older and younger groups also.

New housing

The way the system is supposed to work is as follows. New "Affordable Housing (AH)" is largely secured through the planning process and is supplied by private developers as part of the various works they have to include in order to make their development acceptable. The agreements securing this are called "Section 106 agreements". The amount of AH varies from Local Authority to Local Authority (LA). In the same region, the percentage can vary markedly between LAs and can be as low as 10% or as high as 40% in neighbouring LA areas. The percentage is informed not only by need but also by what is deemed viable locally, that is, at a level where the landowner can receive a decent premium above current use value and the developer can pay that premium, build and sell his houses and make around 20% profit.

No Government subsidy is involved; the developer is expected to factor the cost of the AH into the bid he makes for the land, so it is not really a cost to him either. The landowner should still be getting, for development purposes, far more than he could ever have expected to get had the land not been approved for housing. Therefore he should be happy with his side of the deal. Agricultural land value is fairly constant throughout England at around £20,000 per hectare. Land for residential development can be worth millions per hectare. In theory, where market house values exceed the cost of building them by enough to cross-

subsidise the affordable homes (which may be sold at cost or even a little below cost), this is a viable way of supplying AH.

Much has been heard lately about developers getting out of their obligations to supply AH by the use of viability appraisals (VA). VAs have their place. Where the land is brownfield, it may already have a value considerably in excess of agricultural (so that it may not be possible both to pay the landowner the premium he expects and deliver the percentage of AH the LA expects) or may require very expensive remediation (making good contaminated land etc.). Whilst in theory this cost should come off the land value, if the costs are too high, then the land will not be brought forward for development. The loss of AH may be a price worth paying for the remediation and redevelopment of a redundant industrial wasteland.

However, as the numbers of successful VAs around the country show, particularly in high-value areas which should, in theory, be best able to support the cost of AH (as the mark-up from agricultural land value to residential is most extreme), it is clear that the system is being “gamed” by the developers so as to get out of their obligations.

Affordable to whom?

The lengthy definition of AH is set out in the National Planning Policy Framework (NPPF) and includes “Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market... Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).”⁸

It is the inclusion of Affordable Rent, related not to ability to pay but to a discount of 20% from market rent, which has led to a lot of criticism of affordable housing as not actually affordable at all, particularly in large parts of the country like London and the South-East. Affordable Rent was brought in to substitute for Government grant, the thinking being that if Registered Providers (RPs) (housing associations as they are commonly known) were getting 80% market rent, then they could raise more money on the back of the higher rents without the need for Government subsidy.

A consultation on a revised NPPF has recently closed. Worryingly, the new definition of AH omits the term “Social housing” altogether and by including low-cost market housing, dilutes the definition of “affordable” still further?

Problems with housing delivery

The real problem with housing currently is that we are relying on an industry whose main driver is profit for the provision of one of our most urgent human needs. Housing should be regarded as basic infrastructure, and the only time in our history when we have built the 300,000 homes a year the Government admits we need, was when LAs were building large amounts of Council housing in the years after the Second World War.

Developers have been accused of land-banking (sitting on permissioned sites, not building them out). This is not what they do. Usually, an option on land must be followed, once planning permission is granted, by an immediate and expensive purchase. They are not in the business of tying up capital more than is necessary. However, the developer model is to “trickle out” houses at between 35 - 50 units per site per year. So a site for 350 homes may well be built out over as much as ten years. Developers almost “build to order”. They are certainly not in the business of flooding the market and bringing down prices. The trick is to hit the perfect curve where the business ticks over and the minimum number of houses can be sold at the highest prices. This process will be happening on sites in many locations at once. There is no inducement for the developers to do anything else. Why should they? They are private businesses with hungry shareholders, not public benefactors.

The only potential builders who have public good, not private profit, at the heart of what they do are the RPs and the LAs. But at the moment, Central Government controls LA borrowing and the RtB is still an unnecessary shadow cast on all public attempts to build the homes that local people want, need and can afford. Until there is legislative change, LAs and RPs are unable to meet the need, although the appetite is certainly there.

Blue Sky thinking

The Government, with its review of the NPPF and its current consultation on the viability appraisals process, is still loath to accept that the current system cannot just be tinkered with but that radical change is necessary if we are to build not just more homes, but more genuinely affordable homes.

But the solutions are there, and have been used before very successfully. They were even hinted at in the 2017 White Paper with which we began, “Fixing our Broken Housing Market”. This cites the 2015 paper from Policy Exchange, “Garden Villages” by Lord Matthew Taylor.¹⁰ Taylor proposes giving LAs powers to acquire land compulsorily for new Garden Villages in the same way that the New Town Authorities were in the 20th century. They could acquire land at current use value rather than pay development value.

Taylor suggests paying a flat premium of 50% on top of current use value, which would be a generous compensation to the landowner whilst still retaining most of the development value for the public purse, in order to provide the infrastructure, affordable housing and community facilities the new villages would require.

This is good as far as it goes, but it does not go far enough. There is no reason why these powers should not be given to LAs for all new necessary development. At the moment, development happens, not necessarily in the best locations, but on those sites which a landowner is prepared to bring to market. Some areas get over-developed and others remain under-developed. The development which is created meets the developer’s needs for profit first and foremost, rather than the community’s need for, perhaps, decent sized smaller family houses with good

family gardens. Too many houses are squeezed onto the site with little thought for aesthetics, locally distinctive style, energy efficiency and a sense of place.

Whilst there would still be room and a place for “windfall” development (developer-led), with major development being led by LAs, we would no longer be relying on the developers for the affordable housing that we need right now.

This could solve the problems of our youngsters, struggling in the private rental sector, with home ownership an ever-receding goal. If we had sufficient social housing we could offer 5-year tenancies to all young households. Whilst they were enjoying a secure tenancy at a low rent, they would be able to save for a deposit and at the end of the five years, if they could not afford a market property, they could be offered an affordable sale (shared ownership) property instead. Or they might choose to move out to the private rental sector – once this is competing with a reinvigorated social sector, it is to be expected that standards will rise and rents will have to fall.

The original Council estates led the way in decent housing. Social housing used to be a tenure of choice, not of last resort. It could become a tenure of choice once again.

The housing market is broken. Addressing it needs radical action. The reward is not just more, better and more affordable homes. It means fixing health inequality, with the poor housed currently in the worst private rental sector properties. It means fixing inter-generational inequality, with the young seriously disadvantaged unless they are the few lucky enough to be able to tap the Bank of Mum and Dad. It is madness to expect the problem to sort itself out or that a little tinkering can make a significant difference. Public borrowing, public investment and public home ownership all need to be given their place. We can fix this; but it takes vision and it takes action. The investment would pay for itself. It would, after all, be as safe as houses.

What actions can we take?

There are several things we can do that can make a real difference, both individually and collectively. Here are some suggestions.

1. Get involved with your Local Plan process. All Local Authorities must get their Local Plan approved through the examinations process, but by April 2017, only 36% of Local Authorities had got this far and 43% had yet to publish even a consultation draft, which means most are still open to suggestions and variations. Through the consultation process, you can make your views felt. How ambitious is the Affordable Housing target? So many people respond only to make negative criticisms. Where the Local Authority shows ambition, support it. Where plans do not seem likely to achieve housing that truly meets local needs, hold them to account.
2. Consider getting together with your community to get a Neighbourhood Plan approved. This is a way for more “ground-up” planning, with locals taking a lead in getting approved the type of housing they feel is appropriate, in the locations they feel are the most suitable. Your Local

Authority will support you through this process. Find out more here:
<https://www.gov.uk/guidance/neighbourhood-planning--2>

3. If you live in a rural area, think about identifying a Rural Exception Site in your village. This is a site which would not normally be approved for housing, but an exception is made for a 100% affordable housing scheme (usually delivered by a RP). Parish Councils (PCs) and concerned locals can canvass support, help identify a site (the PC may even own some land which could be used) and work with the LA and RP to bring the site forward for housing for local people.
4. Consider standing as a Parish, Town, District or Borough Councillor. This is a good way to influence what happens locally as regards housing. If you can get onto your Planning Committee, even better.

Collectively, the Unitarians should lobby Government for an immediate end to the "Right to Buy", which is causing the haemorrhage of social housing just when we need it most.

Unitarians should also lobby Government so that the money available for affordable housing should be spent on new social housing, rather than (as at present) the bulk of the money going towards affordable home ownership, which does not help the poorest in society, nor help to reduce the huge amount spent on Housing Benefit because of a dearth of social rented properties.

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¹ "Fixing our Broken Housing Market" DCLG 2017

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590463/Fixing_our_broken_housing_market_-_accessible_version.pdf

² <https://www.local.gov.uk/about/news/ps35-billion-right-buy-discounts-threatens-scheme>

³ <https://www.gov.uk/government/statistical-data-sets/live-tables-on-social-housing-sales>

⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/675942/2016-17_EHS_Headline_Report.pdf

⁵ https://england.shelter.org.uk/media/press_releases/articles/eviction_from_a_private_tenancy_accounts_for_78_of_the_rise_in_homelessness_since_2011

⁶ <https://www.theguardian.com/money/2015/jun/24/uk-tenants-pay-more-rent-than-europe>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/627684/EHS_Mortgagors_Report.pdf

⁷ <https://www.migrationwatchuk.org/briefing-paper/362>

⁸ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6077/2116950.pdf

⁹ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/685289/Draft_revised_National_Planning_Policy_Framework.pdf

¹⁰ <https://policyexchange.org.uk/wp-content/uploads/2016/09/garden-villages.pdf>

Glossary:

AH... Affordable housing

LA... Local Authority

NPPF... National Planning Policy Framework

PC... Parish Council

RP... Registered Provider (housing association)

RtB... Right to Buy

VA... Viability Appraisal