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PRICED OUT?

AFFORDABLE HOUSING IN ENGLAND

Darren Baxter
and **Luke Murphy**

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SUMMARY

CONTEXT

England is in the midst of a housing crisis. In 67 per cent of local authorities, insufficient houses were built to meet demand in 2015/16 (DCLG 2016; DCLG 2017). Across England, of the 265,936 houses that are needed, just 189,650 new dwellings (71 per cent) were provided. While other factors, such as money supply, play their part, this is impacting on the affordability of housing. House prices have risen by 76 per cent since 1995, far outstripping inflation (ONS 2017).

Against this backdrop, the nature of affordable housing has changed in recent years. The range of products available has increased – including models for rent, ownership and intermediate housing – and these have become increasingly divorced from earnings, and linked to market prices or rents instead.

The recent election of mayors in several regions of the UK could have a key impact in delivering the housing that's needed, at the right price and in a manner that works for local areas. This briefing paper examines four of these areas – the west of England, the West Midlands, Greater Manchester, and Tees Valley – and finds that affordable housing delivery is falling well behind that which is needed in three of the four. In many, the affordable housing products designed to provide support for housing costs are failing to meet the needs of those on the lowest incomes.

In this context, a number of recommendations are put forward set around a stronger approach to affordable housing at a national level, including a clear measure of affordability, and the devolution of greater powers to mayors to deliver the housing their regions need.

KEY FINDINGS

- New additions to dwelling stock are failing to meet housing need. As a result, of the 265,936 homes that are needed, just 189,650 were added to dwelling stock in 2015/16. Focussing on the areas examined in this paper, in only Tees Valley does house-building meet estimates of need. The west of England would need to build an additional 1,060 homes a year, and the West Midlands 2,812. This imbalance between supply and need is greatest in Greater Manchester, which misses its target by 42 per cent or 4,518 homes.
- Affordable housing provision is falling short in 92 per cent of local authorities. In the four combined authorities highlighted in this briefing, no area is providing the number of affordable homes their populations need as suggested by the government's new housing targets.
- House prices are out of the reach of many on average incomes. Median monthly rents do not become affordable, using the 35 per cent of net monthly income measure, until the 80th income percentile in the west of England, the 40th in the West Midlands and Greater Manchester, and the 25th in Tees valley.
- Analysis of the affordability of different housing products shows that across combined authorities many models are out of the reach of single people. This is most acute in the west of England where house prices and median rents are highest, but is a problem across all four areas – even the Tees Valley which has house prices notably lower than the English average. Dual-earning couples, even those with lower quartile earnings, can afford most models

in most areas. However, when this income is diminished by the removal of a full-time earning as in the case of couples with one child (1x FTE and 1x PTE), a much larger range of models become out of reach, particularly for those on lower incomes.

RECOMMENDATIONS

- Government should take a stronger approach to affordable housing at a national level, ensuring that a threshold of 35 per cent for affordable housing is applied to all private developments, with a higher threshold of 50 per cent on all public land, in line with the approach adopted by the Mayor of London.
- The Government should support a large-scale council house building programme by removing the arbitrary cap placed on borrowing through the Housing Revenue Account (HRA). Removing the cap will allow local authorities to borrow to invest in the building of a new generation of council homes.
- Greater powers should be devolved to mayors to deliver the housing their regions need. In the first instance, this should create a clear and consistent framework for the devolution of housing and planning powers and apply these equally across the country. In the longer term, mayors should gain a range of new powers, including greater flexibility in the pooling and coordination of housing funding streams, allowing combined authorities to gather resources and coordinate activity in a way that ensures appropriate tenure mix while still meeting volume requirements; the retention of stamp duty receipts on all new-build properties, to top-up housing investment funding; and council tax flexibility on empty sites and empty homes to accelerate the process of bringing unused homes back into use and putting unused planning permissions into action. In addition, the government should also:
 - devolve a proportion of the budget for the Help to Buy Equity Loan Programme to combined authorities for the Mayors to use as they see fit.
 - re-allocate the funding for the Starter Homes programme to a programme for investing in genuinely affordable homes for rent and devolve the appropriate proportion to the combined authorities.
- A universally understood and clear measure of affordability should be developed, linked to earnings, and applied transparently for every affordable housing product – with the development of an affordability matrix that sets out when each housing product becomes affordable.
- Subsidy should be targeted at those products that are clearly affordable, and it should be withdrawn from products that do not meet the need of those they are designed to assist.
- Mayors should establish combined authority-wide Mayoral Housing Companies, using them to bring land to market for social and affordable rent and using mechanisms to capture public value from the land.
- Local authorities and local authority pension funds should work together to combine their land and investment to build affordable housing.
- The government and mayors should consider how new and innovative products and delivery models might contribute to meeting affordable housing need. This should include the reform of compulsory purchase orders to enable the purchase of land at a lower value and the funding of affordable housing at lower costs.

1. INTRODUCTION

England is in the midst of a housing crisis. In the majority of areas, new building – while increasing – is falling woefully short of delivering the houses the country needs. In 67 per cent of local authorities, insufficient houses were built to meet demand in 2015/16 (DCLG 2016; DCLG 2017). Across England, of the 265,936 houses that are needed, just 189,650 (71 per cent) were constructed.

While other factors such as money supply play their part it is unsurprising then that prices have increased substantially over recent decades. Across England, house prices have risen by 76 per cent since 1995, far outstripping inflation (ONS 2017). Analysis conducted by housing charity Shelter has shown that if inflation had increased as fast as house prices a pint of milk would now cost over £10 (Carlyon 2013).

The impacts of this unaffordability are substantial, not least on those in their 30s who are half as likely as their parents' generation to be homeowners (Corlett and Judge 2017). This has led to claims of a “generation rent”, who are locked out of accessing ownership by high house prices, and therefore are forced to rent in the insecure, and often poor quality, private rented sector.

Alongside this, the selling off of social housing through the Right to Buy Scheme and years of low investment have meant that the social housing stock has decreased by more than half (52 per cent) in the last 35 years (Pearce et al 2014). Increasingly, it is targeted at those who are most vulnerable and in the greatest housing need. Accordingly, many people who would have previously found themselves in the social sector are also now finding their home in the private rented sector, along with those who are unable to buy.

The broader negative impacts of high housing costs are significant. The provision of sub-market housing has the greatest impact on reducing poverty after housing costs (Tunstall et al 2013), and high rents lead to overcrowding, higher reliance on borrowing and constraints when purchasing essentials, such as food and clothing (Pennington et al 2012).

In addition, the nature of affordable housing has changed in recent years. The range of products available has increased, including models for rent, ownership and intermediate housing, and these have become increasingly divorced from earnings and linked to market prices or rents instead. In this context, this briefing paper seeks to understand how the affordability crisis is playing out in a mix of areas in England, and whether the range of affordable models are effective in meeting the needs of households. It finds that many in these regions face issues with affordability and the models available to address this are often insufficient. This is particularly the case for those on the lowest incomes, for whom these products are intended.

There is value in examining affordability across England for two reasons. Firstly, many narratives of the housing crisis are dominated by the circumstances of the housing market in London and the South East where the affordability crisis is most acute – ratios of house prices to earnings in those regions are significantly higher than in many other parts of the country. Recent research by IPPR found that for those on single, low or middle incomes at or below £32,885 per annum

(gross income), no ‘affordable’ housing products are actually affordable in the capital (Murphy and Baxter 2017). However, it is also important to understand the nature of affordability where house prices, household incomes and levels of housing demand are lower, as this may impact differently on and the effectiveness of different affordable housing products.

Secondly, the recent devolution of powers – including those of housing – to combined authorities, and the election in May 2017 of several mayors, could be key in addressing some of the challenges around supply and affordability; not least in recognising that local housing markets, within and between combined authorities, are different and require bespoke approaches. This paper will review these powers and consider their sufficiency in meeting the challenges in the housing markets in each of these areas.

Four combined authorities have been selected: the west of England, Greater Manchester, West Midlands and Tees Valley. Each has a mayor with some housing powers elected in 2017, and together they reflect a range of housing market characteristics. The west of England was selected to reflect a combined authority with high housing costs across its member local authorities compared to the Tees Valley with low housing costs across all of its member authorities. Greater Manchester and the West Midlands, demonstrate closer to English average housing costs at the combined authority level, while containing a mix or higher and lower housing costs across their member authorities. The average income levels in each of these areas follow a similar pattern. This diversity allows for each of the affordable housing models to be tested in a range of housing markets. The constituent members of each authority are set out in the table below.

TABLE 1.1

The constituent member authorities of the four combined authorities examined in this paper

West of England CA	Greater Manchester CA	Tees Valley CA	West Midlands CA
Bath and North East Somerset UA Bristol, City of UA South Gloucestershire UA	Bolton Bury Manchester Oldham Rochdale Salford Stockport Tameside Trafford Wigan	Darlington UA Hartlepool UA Middlesbrough UA Northumberland UA Redcar and Cleveland UA Stockton-On-Tees UA	Birmingham Coventry Dudley Sandwell Solihull Walsall Wolverhampton

This paper shows that that affordable housing delivery is falling well behind the level needed in each of the combined authority areas examined. This is particularly concerning given that the analysis in this report also shows that many of the models are out of the reach of many of those they are intended for, particularly those on low or single incomes.

In this context, a number of recommendations are put forward around a stronger approach to affordable housing at a national level, including a clear measure of affordability, and the devolution of greater powers to mayors to deliver the housing their regions need. In respect to the latter, this should include the establishment of combined authority-wide Mayoral Housing Companies, which ought to bring land to market to build homes for social and affordable rent; local authorities and local authority pension funds should work together to combine their land and investment to finance and develop affordable housing; and, mayors should provide greater support for innovation in the affordable housing market, encouraging the development of alternative affordable housing models.

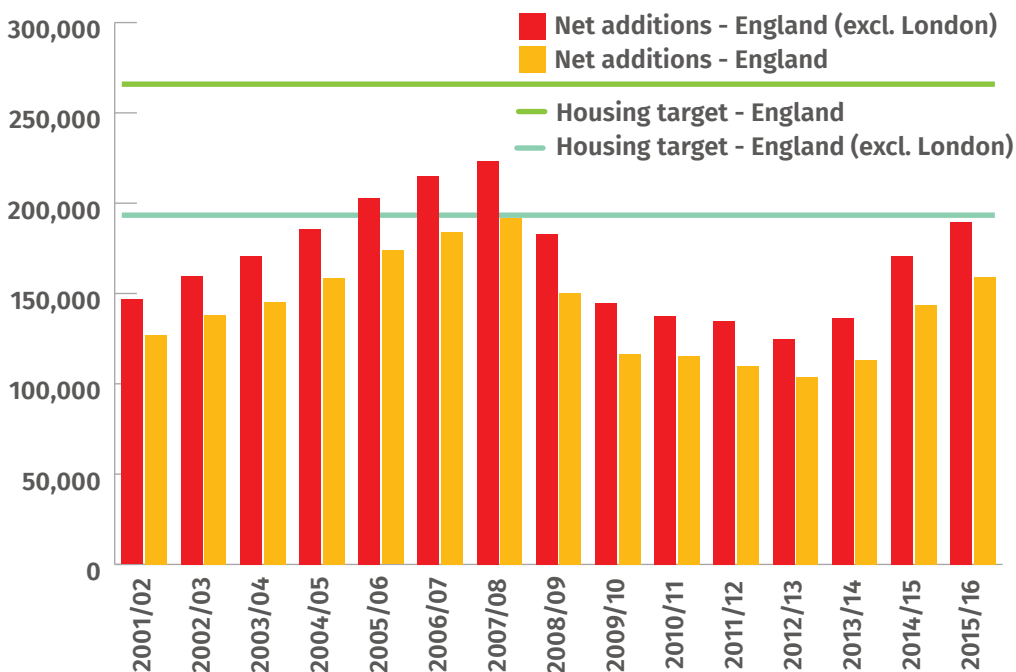
2. A CRISIS OF SUPPLY?

While it has been known for some time that England has been failing to build enough homes, estimates of the need for new housing supply vary. Local authorities have tended to take individualised approaches to calculating need, often commissioning out the task of computing an estimate. In response, the Department for Communities and Local Government (DCLG) are currently consulting on a standardised methodology to be used to calculate housing need.

DCLG’s proposed approach is structured over three stages. The first sets a baseline on estimates of household growth in the local authority area; this projection is then adjusted to reflect market signals, using median affordability ratios; and finally, this figure is capped so as to avoid large spikes in areas with high desirability (DCLG 2017b).

FIGURE 2.1

The net additions to housing stock (2001/02 – 2015/16) compared to the annual housing target, 2016–2026

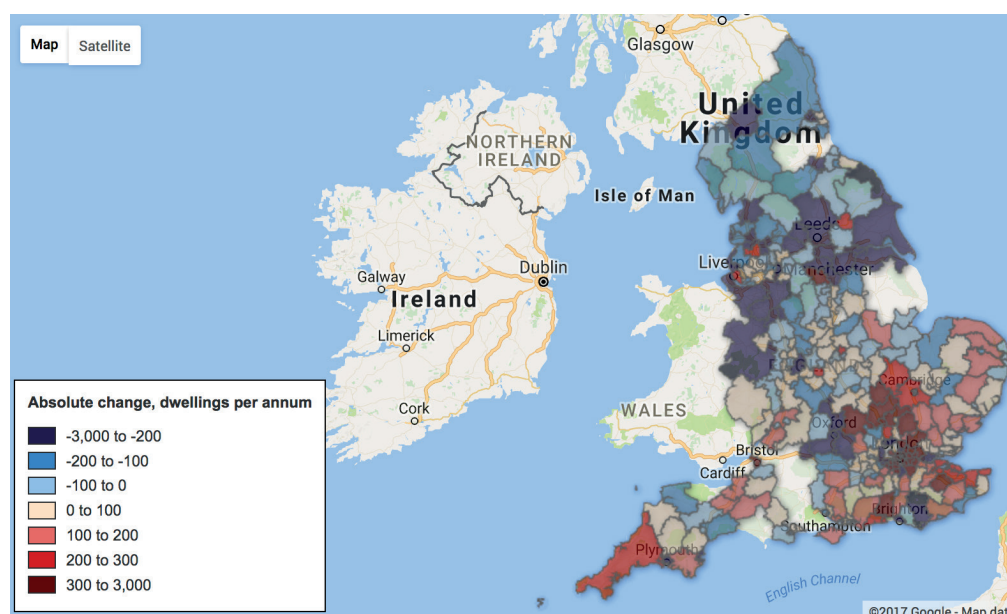


Author’s own analysis of: DCLG (2017d) ‘Live tables on dwelling stock (including vacants)’; DCLG (2017a) ‘Application of proposed formula for assessing housing need, with contextual data’

This new approach puts England’s estimated housing need at 265,936 – a 28 per cent increase on the previous estimate of 192,248, which was based on local plans.

FIGURE 2.2

The absolute change between old and new housing need estimates across local authority areas in England



Source: Analysis conducted by planning magazine of housing need consultation data: <https://www.gov.uk/government/consultations/planning-for-the-right-homes-in-the-right-places-consultation-proposals>

Figure 2.2 shows that this new data has led to large increases in estimates in certain areas, from existing figures calculated in local plans. These increases are particularly located around London and the South East, but also in Bristol in the South West, and Sheffield, Liverpool and York in the north of England. Many areas, principally those in the midlands and north of England, see a decrease in their housing need estimates.

This approach to estimating need, which bases itself on past trends, has the potential to direct much attention – and potentially resource – towards London and the South. The unaffordability of housing in this part of the country is the result of need being unmet by supply, and efforts to redress this are much needed. However, this should not come at the expense of other parts of the country. In fact, this may undermine other points of government policy, such as those set out in the recent industrial strategy green paper. In this paper, the government set out a desire to rebalance the economy away from London and the South East, developing regional cities and towns (HM Government 2017). Ensuring there is sufficient building to house growing workforces will be key in attracting talent and in avoiding the problems seen in the capital.

In addition, an approach to housing delivery focussed solely on addressing need where an existing market is growing ignores the role of the state or public sector as a ‘market maker’. Historically, renewal or redevelopment programmes have focussed on areas of low housing demand, seeking to enhance these areas through new building and encouraging a range of households to move to into them (Wilson 2013). Such approaches may be obscured by centralised calculation focussed largely on household growth.

The case study areas selected for this briefing paper demonstrate that housing need is estimated to be greatest in the West Midlands and Greater Manchester, with over 10,000 homes needed per year in each combined authority area, 4,520

homes per year required in the west of England, and 2,039 in the Tees Valley. Three of these areas – Greater Manchester, West Midlands and the Tees Valley – have each seen a decline in their estimated housing need in the latest calculations. While this is relatively slight in Greater Manchester and the West Midlands (around 5 per cent in each) in Tees Valley this represents a reduction of a third (33 per cent). Incomplete data prevents an assessment of the change in need in the west of England; however, one of its member authorities, Bristol, has seen a 40 per cent increase in demand in their new estimate.

TABLE 2.1

The housing target for the combined authorities studied in this paper

Combined authority	Housing target, homes per year
West of England	4,520
West Midlands	10,282
Greater Manchester	10,708
Tees Valley	2,039

Source: DCLG (2017) 'Application of proposed formula for assessing housing need, with contextual data'

What is clear is that, even in the context of lower estimates of housing need, insufficient housing is being built to address this across England. While house-building is on the rise, it has not yet reached pre-2008 levels. As a result, of the 265,936 homes that need to be built, just 189,650 were constructed in 2015/16. This is a 29 per cent in year shortfall. In 67 per cent of local authorities, insufficient houses were built in 2015/16 to meet local authorities newly calculated housing need figures.¹

FIGURE 2.2

Net additions to dwelling stock in 2015-16 against the housing delivery target for each combined authority



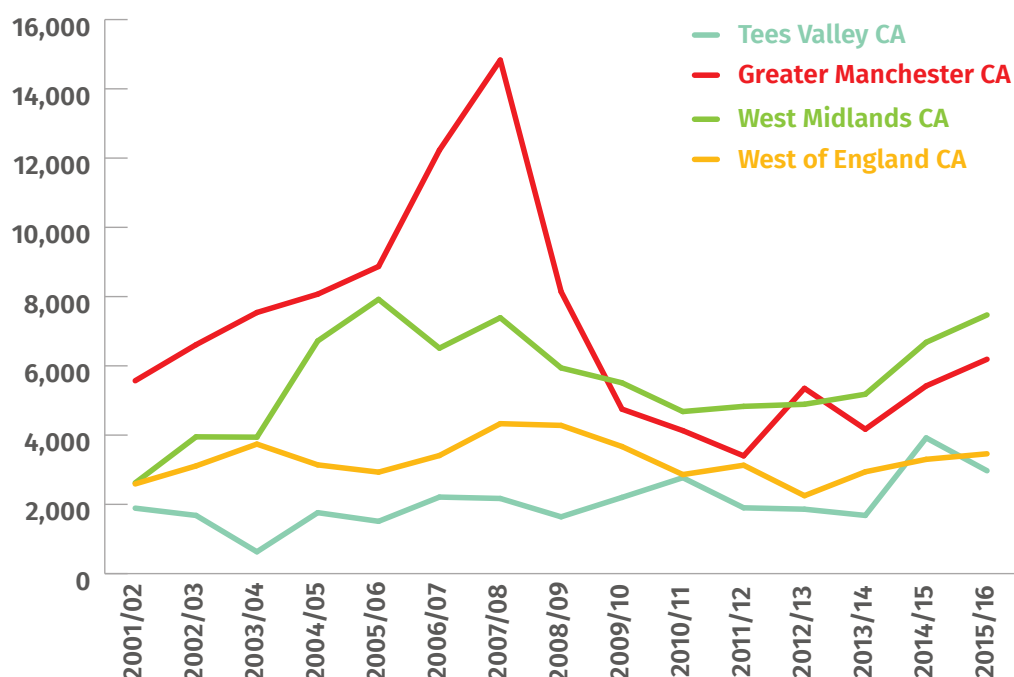
Source: DCLG (2017d) Live tables on dwelling stock (including vacants)

1 For which data is available – (325 out of 353)

The four combined authorities highlighted in this briefing reflect the national pattern in terms of new additions to dwelling stock. Only in the Tees Valley has output returned to pre-2008 levels. Consequently, while the Tees Valley exceeds its target by almost half (46 per cent) due to a recent uptick in delivery, the west of England, the West Midlands and Greater Manchester are delivering significantly lower levels of new housing than needed to meet estimated demand. To meet its housing target, the west of England would need to build an additional 1,060 homes, and the West Midlands 2,812. This imbalance between supply and need is greatest in Greater Manchester, which misses its target by 42 per cent or 4,518 homes.

FIGURE 2.3

Net additions to dwelling stock by combined authority, 2001/02–2015/16



Author's own analysis of: DCLG (2017d) Live tables on dwelling stock (including vacants); DCLG (2017a) 'Application of proposed formula for assessing housing need, with contextual data'

This failure to construct enough homes should be a key concern in local housing markets. Particularly as, while it is not the only driver of house price growth, a lack of supply is a key driver of unaffordability. This is underpinned by the analysis of new demand figures, which shows a positive correlation between higher prices in a local authority and a higher shortfall between what was built in 2015/16 and the housing need identified in the new assessment by DCLG.²

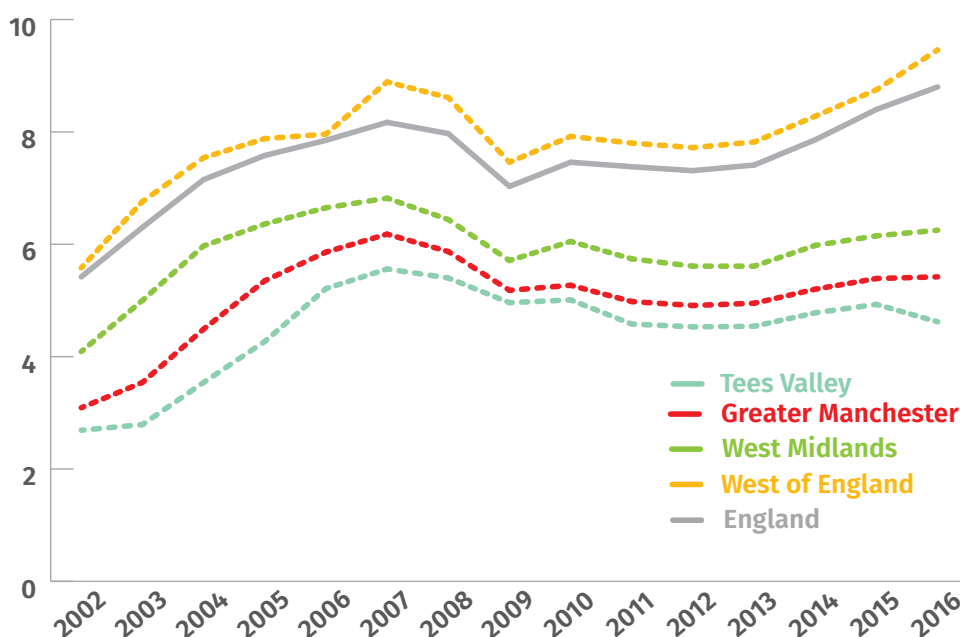
In England, the ratio of house prices to earnings has risen from 5.42 in 2002 to 8.8 in 2016, with only a slight dip during the global financial crisis. This trajectory is followed by each of the four combined authority areas examined in this paper. In the West Midlands, Greater Manchester and Tees Valley, the ratio of house prices to lower quartile earnings is consistently below the English average. It should be noted, however, that in each of these three areas the overall upward trajectory appears to be getting less steep into 2015 and 2016, and in the Tees Valley looks to be beginning to decline. In the west of England, the ratio of house prices to

² Author's own analysis.

earnings has risen above national levels, despite being equal to them in 2002, and appears to be continuing an upward trajectory.

FIGURE 2.4

The ratio of lower quartile house price to lower quartile gross annual (where available) residence-based earnings by combined authority area, 2002 to 2016



Source: Office for National Statistics (2017b) 'Ratio of house price to residence-based earnings (lower quartile and median)'

DELIVERY OF AFFORDABLE HOUSING

Recent IPPR research into the delivery of affordable housing in London found a significant shortfall against the London Plan target (54 per cent under target over three years) which is itself likely to be an under-estimate (Murphy and Baxter 2017). Estimates of affordable housing need across England vary, but research by the Town and Country Planning Association in 2011 found that there was demand for 78,500 affordable homes a year, or approximately 33 per cent of total housing demand of 243,000. For England, excluding London, demand was estimated to be 53,400 affordable homes a year out of total of 187,000 homes (TCPA 2011).

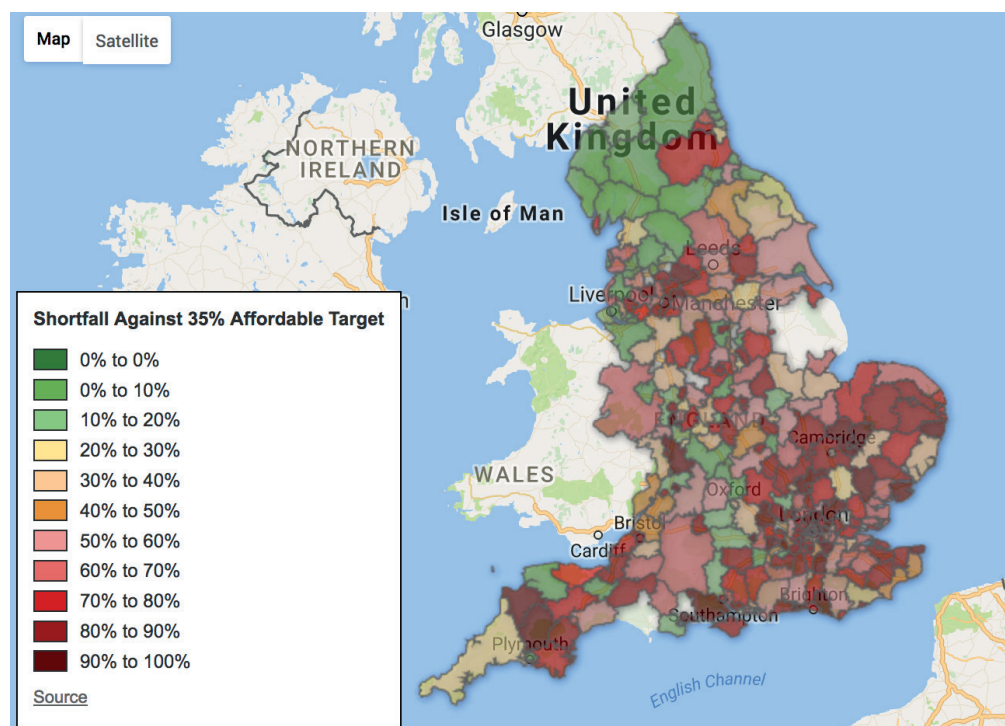
However, of the 266,000 estimated housing need under the government's new measure, no estimate has been made of the affordable housing need within that. The TCPA approach suggests a proportion of around 33 per cent of the total, although other estimates suggest a higher percentage requirement of around 40 per cent (Shelter 2008). Taking a conservative estimate of 35 per cent of the total suggests that there is a need for at least 93,000 affordable homes across England every year.

On this measure, delivery is falling woefully short with just over a third of the affordable homes needed built in the last year (32,630) across England (DCLG 2017c). Moreover, applying the 35 per cent reference point against the government's new measure for estimated housing need in each local authority area shows that 92 per cent of local authorities are falling short of providing the necessary level of affordable housing.³

³ Notwithstanding the fact that the need for affordable housing will vary in each area with some areas requiring a higher proportion of affordable housing than others.

FIGURE 2.5

Proportion of affordable housing need met based on a 35 per cent target of the Government’s new housing need estimates across local authority areas in England



Source: Author’s own analysis of DCLG (2017a) ‘Application of proposed formula for assessing housing need, with contextual data’. <https://www.gov.uk/government/consultations/planning-for-the-right-homes-in-the-right-places-consultation-proposals>

In the four combined authorities highlighted in this briefing, no area is providing the number of affordable homes their areas need suggested by the government’s new housing targets, though Tees Valley comes close to providing the number needed.

TABLE 2.2

The affordable housing targets and delivery for the combined authorities studied in this paper

Combined authority	Housing target, homes per year	Affordable homes 35 per cent target	Actual in 2015/16	% of target delivered
West of England	4,520	1,582	540	34%
West Midlands	10,282	3,599	1,340	37%
Greater Manchester	10,708	3,748	820	22%
Tees Valley	2,039	714	680	95%

Source: Author’s own analysis of: DCLG (2017c) ‘Live tables on affordable housing supply’, DCLG (2017a) ‘Application of proposed formula for assessing housing need, with contextual data’

These findings should not be surprising in light of the reduction in capital investment in social housing recent years. Research by the National Housing Federation has shown that in 2009, government invested £11.4 billion in building new homes in England, equivalent to 0.7 per cent of GDP, yet by 2015, this had fallen to £5.3 billion, or 0.2 per cent of GDP (NHF 2017a).

Moreover, recent analysis from the Chartered Institute for Housing (Table 2.3) revealed that the majority of financial support by government has shifted away from affordable housing (now only 21 per cent) and towards supporting private home ownership. However, these comparisons are slightly misleading given that support for affordable housing is in the form of capital spending, whereas that which supports Help-to-Buy and some other products is an equity loan, and therefore ultimately repayable.

TABLE 2.3
Housing financial support by policy area

Area	Programme	£ bn	per cent
Support for private markets	Help to buy equity loans	12.5	30
	Help to buy life time ISA	4.2	10
	PRS guarantee	3.5	9
	Help to Buy Mortgage guarantee	2.3	6
	Housing infrastructure fund	2.3	6
	Other programmes	7.7	19
	Total	32.5	79
Support for affordable housing	Shared ownership and affordable housing programme	4.3	10
	Other programmes	4.3	10
	Total	8.6	21
Total		41.1	100

Source: See <http://www.cih.org/resources/PDF/1UKHRper cent20briefingper cent202017.pdf>

In the context of low levels of housing delivery and increasing unaffordability many of the newly elected mayors have pledged to examine the housing offer in their regions. There are several good reasons for mayors to do so. First and foremost, the negative consequences of poor housing are plain to see. Affordable housing is key in reducing the experience of poverty (Tunstall et al 2013), and high rents lead to overcrowding, higher reliance on borrowing and constraining household budgets (Pennington 2012).

Secondly, high housing costs impact negatively on public finances. Homelessness costs the taxpayer up to £20,123 per person per year (Pleace 2015), and housing people in temporary accommodation, just one element of the homelessness system, costs London councils an estimated £663 million in 2014/15 (Rugg 2016).

Thirdly, a key motivation behind the devolution of powers to mayors has been to drive economic growth. Ensuring that housing is affordable will be a key part in ensuring that the growth these city regions see is more inclusive, challenging rather than repeating the problems faced in London and the South East. In fact, this may be a key part of the 'offer' presented by the city regions in attracting people to remain in and relocate to their areas. The following section will consider what powers mayors have available to them and how they are proposing to use them.

3.

WHAT ROLE CAN MAYORS PLAY IN DRIVING FORWARD DECENT AFFORDABLE HOUSING?

Devolution can play a key role in helping local areas to deliver the right quantity of homes to meet local need and to allow them to ensure these are affordable. In addition, a localised approach allows mayors and housing leads to develop approaches and models which respond to local dynamics, reflecting the specific housing market or markets in their areas. Already certain housing powers have been devolved to each of the four combined authority areas examined in this report. However, the nature of the housing levers over which mayors have control are varied and differ across each area, with the extent of powers far greater in some areas.

WHAT POWERS DO MAYORS HAVE?

All combined authorities with devolution deals have powers over establishing Public Land Commissions or Joint Asset Boards and Mayoral Development Corporations. Joint Asset Boards have the power to review all public land within the combined authority area, including that held by public bodies outside of the local authorities, such as the NHS and Ministry of Defence. They are then able to scope out the potential of this land for residential development. Snelling and Davies (2016) argue that asset boards could have the potential to bring forward alternate models of housing, such as build to rent, shared ownership or alternate models of home ownership (Snelling and Davies 2016).

Mayoral Development Corporations target specific geographic areas and bring these forward for regeneration. Commercial and residential developments are considered together, with a key focus on place and community development. Tees Valley is the first combined authority outside of London to have had a Mayoral Development Corporation designated (TVCA 2017). Focussed on commercial rather than residential property, the South Tees Corporation will redevelop the former SSI steel site in Redcar, hoping to bring in new industry and employment opportunities to the region.

In addition, all the combined authorities considered in this report except Tees Valley have compulsory purchase (CPO) powers.⁴ The conferring of CPO powers onto the mayor replicates the CPO powers of local authorities, allowing the mayor to acquire land or property, but at the spatial scale of the combined authority. These powers can support the work of combined authorities in bringing land to use for residential development, for example that identified through asset boards.

Alongside these powers, Greater Manchester also has a Housing Loan Fund and the power to pursue a Spatial Strategy. The Housing Loan Fund is worth £300 million and designed to support projects where commercial developers may be unsure about investment (GMCA 2017). So far, £97 million has been spent, bringing 1184 units to market over nine sites (GMA 2017).

⁴ Although all MDCs have some level of CPO power, and this is the case in Tees valley.

The ability to devise a spatial strategy replicates the powers already held by local authorities, allowing mayors to devise a strategy at combined authority level. Revising the Greater Manchester spatial strategy was a key manifesto pledge of the current mayor, Andy Burnham (Burnham 2017).

The west of England has the greatest total number of devolved powers, although they differ in nature of those in Greater Manchester. In addition to being able to establish an asset board, a mayoral development corporation, the ability to devise a spatial strategy and the ability to make compulsory purchase orders, the mayor also has the power to call in planning decisions and must be consulted on strategic planning applications.

‘Calling in’ a planning application allows the mayor to overrule the planning decisions made by the constituent local authorities on a case by case basis. Currently, there is no guidance on what constitutes a ‘strategic planning application’. In London, where the mayor also has this power, this refers to developments which are of 150 or more units, over 30 metres in height (outside of the City of London) or on the green belt.

TABLE 3.1

Housing powers available to combined authority mayors as part of the devolution deals

	West of England	Greater Manchester	Tees Valley	West Midlands
Public land commission / joint assets board				
Housing Loan Fund				
Compulsory purchase orders				
Mayoral Development Corporations				
Planning call-in powers				
Consultation on strategic planning applications				
Housing grant fund				
Spatial strategy				

Source: Jones (2016)

These devolution deals will allow the newly elected mayors some capacity to increase the supply of affordable housing in their areas. However, the level of devolution over housing powers could be much greater. Successive parliamentary acts have granted additional powers to the Mayor of London related to housing (HM Government 2011). In addition to having the devolved responsibility over each of the areas above, the Mayor of London has responsibility over the Community Infrastructure Levy and holds the investment powers of the Homes and Communities Agency (HCA).

The result of this is that the Mayor of London has much greater control over housing policy in the city. Key elements of this include the ability to issue grant funding for building new homes, explicitly supporting homes for social rent in the process and the development of London specific rent products, London Affordable Rent and

London Living Rent. These two rental products, aimed separately at low and middle income households, aim to reflect and meet need in the context of the London housing market (GLA 2017). Accordingly, London's affordable housing programme is markedly different from elsewhere in the country.

THE APPROACHES THAT MAYORS ARE ADOPTING

Mayors have pledged to use these powers in a range of ways. In their manifestos, the mayors across the four combined authority areas examined for this paper set out different visions for housing delivery. These are set out below.

West of England

Tim Bowles, the Conservative Mayor for the West of England, made few pledges on housing in his manifesto, opting to focus on the nature of development. The mayoral pledge to prioritise Brown Field development, which it claims has not been exhausted, was “to ease pressure for green field development” (Magrini 2017).

West Midlands

Andy Street, the Conservative Mayor for the West Midlands' manifesto pledged explicit support for affordable housing. It stated that the mayor would “ensure that there is the right balance of social and private housing, owned and rented, and that there is enough affordable housing for those on lower incomes” (WMCA, 2017). Policies to support ownership were also outlined, including supporting starter homes, the voluntary right to buy and supporting the governments Help to Buy scheme.

In the delivery of new housing the mayor pledged to ensure that all local authorities have comprehensive Local Plans to ensure the sufficient delivery of housing and employment land and hoped to drive up the quality of housing through working with housing associations on their own stock and developing tougher energy efficiency standards.

The mayor also pledged support to focus development on brownfield land. This includes a £200 million fund to treat and bring to market brownfield sites, developing a register of such land and making it easier to convert buildings to residential use.

Greater Manchester

Andy Burnham, the Labour Mayor of Manchester's manifesto contained a pledge to renegotiate the terms of the Greater Manchester fund to be able to use it more explicitly to invest in building council and social rent homes. In addition, the mayor aims to work with housing providers to develop a Greater Manchester-wide Rent to Own scheme, targeting it on city centres as part of a wider approach to regeneration.

Alongside this focus on affordable housing, the mayor has pledged to end street homelessness in the region by 2020, apply more stringent regulation to private landlords and re-write the Greater Manchester Spatial framework. He has also halted plans to build on the green belt.

Tees Valley

Ben Houchan, the Conservative Mayor of Tees Valley did not publish a manifesto nor has he as yet set out a policy programme on housing.

While there is much divergence across these manifesto pledges, it is also the case that three areas of consensus emerge.

1. A need for affordable housing is recognised in all four areas.
2. Support for accessing home ownership through a number of means is proposed and is set to be a key part of the Mayors affordable housing plans.
3. Three of the four mayors have challenged building on the green belt, focussing on using brown field sites to deliver sufficient housing completions.

What models of affordable housing exist?

The national funding landscape for affordable housing is confused and has been subject to uncertainty in recent years. In 2010, support for building homes at social rent was removed, being replaced by the new 'Affordable Rent' model. Since then, affordable ownership products have gained greater focus in the government's affordable housing programme. This focus on ownership models has since been reversed in the most recent Autumn Statement in which the government pledged support for sub-market rent and through Theresa May's announcement of an additional £2 billion for affordable housing, including homes for social rent at the Conservative Party conference (Theresa May 2017). The government's white paper on housing set out seven different types of affordable housing product, covering rental, ownership and intermediate. These range from the deep discount of social rent to 80 per cent of market price (DCLG 2017d). Figure 3.2 sets out and explains each of these alongside some new, innovative models.

HOUSING MODELS DEVELOPED BY LOCAL AUTHORITIES

While mayors have been in place only a short time, they may well already have a number of areas of good practice in their regions to draw upon. Several of such examples, led by both public and third sector organisations, are set out below.

Manchester Matrix Model

Matrix Homes is a housing investment model owned jointly by Manchester City Council, Greater Manchester Pension fund and the Homes and Communities Agency. It has been formed to deliver over 240 homes for ownership and rent across three sites in Manchester (Matrix Homes 2017). The scheme was developed in response to increased demand for housing due to household and population growth and the need to develop new models to finance homes against a backdrop of a market that was not developing (Manchester City Council 2016).

The scheme is a partnership where the city council provides land that it owns (with one site invested by the HCA), while the Pension Fund acts as investor, funding the development (HCA 2014). Both parties then gain capital and revenue income from the scheme. A development contractor is brought in to design and build the properties, and a head tenant sought to lease and manage the private rented properties (Manchester City Council 2016). This model allows the council to retain their land asset as a long-term investment, providing a longer-term source of income for the city and giving the council a greater stake in the neighbourhoods they construct.

The homes that are built for ownership will be sold outright at market rate and through the Help to Buy scheme (ibid). Private rentals will be let at market rents. To be eligible, housing costs must be no greater than one third of the tenant's household income. The council are currently planning to engage in a second stage of development on new sites.

Bristol Housing Company

The Bristol Housing Company is owned by Bristol City Council. In the context of a housing crisis, it aims to develop new-build housing in order to maximise supply to the area through circumventing the borrowing restrictions placed on councils (Bristol City Council 2017).

The council has established a Wholly Owned Company (WOC), to which it can transfer council owned land. So far, one site has been transferred that will deliver 130 homes, of which 40 per cent will be let at social rents. The council then enters into a partnership with a developer who brings capital and expertise to build the homes, with proceeds being returned to the WOC, and ultimately the council, in dividends (ibid). The longer-term aim is for the revenue generated through the sale of homes on the private market to be used to fund further investment in social housing.

Thirteen Group Empty Homes Scheme

The Empty Homes Scheme is a partnership between the Thirteen Group and local councils, funded by the Homes and Communities Agency (Thirteen Group 2017). The aim of the scheme is to increase the supply of affordable housing by bringing long-term empty properties back into use, while also combatting the negative impact that neglected properties can have on communities (ibid).

The Thirteen Group leases these properties for a fixed period time, providing guaranteed rental income to the owners. Prior to letting them, the group repairs the properties, ensuring that they are brought to the market at a high standard (Hartlepool Borough Council 2017). They then seek out a tenant and manage the property throughout the lease period. The cost of this is deducted from the rent paid to the landlord, interest free (Thirteen Group 2017). The scheme is open to the landlords of properties that have been empty for six or more months.

The scheme is currently operating in Hartlepool, Stockton, Middlesbrough and Darlington. Since 2010, it has developed approximately 100 properties (ibid).

TABLE 3.2**A summary of subsidised and sub-market housing options available to mayors**

Model	Description	Allocation	Cost of rent / purchase
Social rent	Social rented housing tends to be owned by local authorities or other non-profit private registered providers (PRPs). Commercial organisations are now able to build and manage social housing. Normally funded through grant subsidy, they will remain affordable in perpetuity, except where properties are sold through the Right to Buy (RTB).	Local authorities set out their own allocations policies but legislation requires that they prioritise certain groups who are given 'reasonable preference'. These groups include those who have been made homeless, are in severely overcrowded conditions or are vulnerable on welfare grounds.	Rents are set locally and determined by several characteristics. These are principally related to local wages and costs of rented accommodation on the open market in the area. Rents are also adjusted by the number of bedrooms in a property.
Affordable Private Rent (APR)	APR housing is a new product designed to suit Build to Rent Schemes. APR is funded through developer subsidy (Section 106) and it is intended that housing remains affordable in perpetuity or for alternative affordable housing provision to be made if the discount is withdrawn. It is intended that developers will provide APR directly in place of other affordable housing products.	Allocation policies and the income threshold for eligibility are determined by local authorities with regard to local incomes and local house prices.	Affordable private rented homes are let at 80per cent of the median market rent for private accommodation in an area or below.
Intermediate Rent / Rent to Buy / Rent to Save	Rent to Buy is an intermediate housing model which aims to offer households discounted rent to allow them to save for a deposit towards the purchase of a home.	Allocation policies and the income threshold for eligibility are determined by local authorities with regard to local incomes and local house prices. To be eligible households must be able to realistically save for a home and not be able to purchase a home on the open market. Tenants may purchase the home they reside within and must be offered first refusal on its sale.	Homes are rented at 80per cent of market value for up to 10 years at the end of which it is intended that the tenant will be able to purchase a home.

Model	Description	Allocation	Cost of rent / purchase
Cheyne rent to buy	The Cheyne model is a private rent-to-buy product. New homes will be provided through developer subsidy (Section 106) but the subsidy will not remain in perpetuity or be recycled.	Will be locally determined but to be eligible households must be able to reasonably move into home ownership in five years.	Occupants rent a home at market rent for five years. The cost of purchasing the home is frozen at 90per cent of the property price at the beginning of the five years. At the end of the five-year period tenants are able to purchase the house at that fixed price, using the difference between that and the open market price as their deposit. If they cannot afford to buy at that point they will be reoffered the home every year and prices will increase by CPI.

Shared ownership	Shared ownership is a model in which a household purchases a share of a property and rent the remaining amount from a housing provider. New homes for shared ownership are normally funded through grant subsidy and will remain affordable in perpetuity or the subsidy will be recycled.	Allocation policies and the income threshold for eligibility are determined by local authorities with regard to local incomes and local house prices.	Shared owners may take out an initial stake of varying amounts, commonly 25per cent, 50per cent or 75per cent. They can also 'staircase' up or down, buying or selling stakes back to the housing provider. Shared owners tend to buy their equity with a 90per cent LTV mortgage. The rent for the remaining portion is set at a maximum of 3per cent of the unsold equity, although it is encouraged to be set at 2.75per cent.
Starter homes	A home ownership scheme funded through a mix of government and developer subsidy (Section 106). This subsidy will not be in perpetuity – although there will be a 15-year repayment period for a starter home so when the property is sold on to a new owner within this period, some or all of the discount is repaid.	To be eligible to purchase a starter home, a household's income must be below £80,000 (£90,000 in London).	Starter homes are priced at 80per cent of the local house price or less and are subject to an overall price cap of £450,000 in Greater London and £250,000 elsewhere in England.
Discounted market sale	Discounted market sale homes are those which are made available to households who would otherwise be unable to afford to purchase a home on the open market.	Allocation policies and the income threshold for eligibility are determined by local authorities with regard to local incomes and local house prices.	Homes are discounted so as to be 80per cent or less than the market price in an area.

As set out in this paper so far, the newly elected mayors have a range of powers at their disposal to intervene in and shape housing, and a series of areas of good practice to draw on in delivering affordable housing. However, if mayors are to deliver sub-market housing it is important to assess what is genuinely affordable in these different areas. While affordable housing has for many years largely referred to homes for social rent, in recent years a range of new models have become available. These include products designed for rent (where the rents are linked to the market), outright ownership, and intermediate products which are aimed at supporting households who want to save for a deposit. The following section will set out these different models and consider their affordability for a range of households.

4.

HOW EFFECTIVE IS SUB-MARKET HOUSING?

In this section, we test the affordability of a range of housing models across the four combined authority areas examined in this paper. Two measures are used to determine the affordability of each of these housing models. The first assesses monthly housing costs against net household income. The monthly costs are assumed to be affordable if they are equal to or less than 35 per cent of a household's net income. The second approach applies only to ownership models and determines whether a household would be able to access mortgage finance, categorising the overall house price as affordable if its equal to or less than 3.5 times the household's gross annual income. This is because, while a model may be affordable to a household on a monthly basis, the outright costs may make the product unattainable.

Housing costs are computed from publicly available data on median private and social rents and median house prices. These are adjusted to reflect the rent-setting methods of each model or to assess average monthly mortgage repayment costs.

Rent to Buy models, including the Cheyne model, are calculated on their monthly costs and not the costs associated with the costs of ownership. However, analysis is undertaken to determine the likelihood that these models could 'progress' a household into successful ownership through allowing them to raise a sufficient deposit.

In understanding how affordability differs by household type, we employ three household scenarios as set out in table 4.1. These are then applied to different points across the income scale.

TABLE 4.1

Household examples

Household type	Earnings
Single person working full time	One person on full-time earnings
Couple with one child with one person working full time and one person working part time	One person on full-time earnings + one person on part-time earnings + child benefit
Couple both working full time	Two people on full-time earnings

In modelling the costs of each of these housing products we make several assumptions and, of course, there are alternative methods that could be applied. Nonetheless, we feel this approach provides a balanced, robust and standardised approach to understanding the cost and affordability of each of the products on offer.

WHAT IS AFFORDABLE?

Housing costs vary widely across the four areas examined in this study. The west of England is the combined authority with the highest monthly rent. At £943 per month, this is 45 per cent higher than the English average. This means that, for a single person, accommodation does not become affordable until the 90th income decile. Tees Valley is the study area with the lowest cost housing, 11 per cent below the English average. However, it is still the case that median price rented accommodation would be unaffordable for a single person until the 30th income decile. In both the West Midlands and Greater Manchester, rents – while lower than the English average – would not become affordable until a single person was earning over the local median income.

TABLE 4.2

The median monthly rent for a two-bedroom property in each of the combined areas (CA)

Area	Median rent
West of England CA	£943
Greater Manchester CA	£578
Tees Valley CA	£465
West Midlands CA	£577
England	£650

Source: Valuation Office Agency (2017) Private Rental Market Statistics

TABLE 4.3

The proportion of income median monthly rent accounts for by household type and combined authority area

	10	20	25	30	40	60	70	75	80	90
West of England	84	74	70	66	60	48	43	40	37	33
West Midlands	54	48	46	43	39	32	29	27	25	..
Greater Manchester	54	48	46	44	40	32	29	27	25	22
Tees Valley	44	39	37	35	32	27	24	22	21	..

Source: Author's own analysis

A similar situation is found with regards to median house prices. They are highest in the west of England (18 per cent above the English average) and lowest in Tees Valley (41 per cent below the English average) and outright ownership is unattainable for many on single incomes. In all four areas, outright ownership is unaffordable on a monthly basis for households on incomes in the lower quartile. In the west of England, ownership for single, first time buyers would account for 43 per cent of the median income and does not become affordable until the 90th income decile.

TABLE 4.4**The median house price for a first time buyer property in each of the combined areas**

Area	Median first time buyer price
West of England CA	£215,933
West Midlands CA	£129,619
Greater Manchester Ca	£123,603
Tees valley CA	£109,258
England	£183,680

Source: Author's own analysis of ONS (2017c)

KEY**The different housing models are similarly variably in their affordability.**

Tables 4.5 to 4.9 demonstrate whether or not a product is affordable based on the two measures set out in the introduction to this section. Colour coding for each is set out below:

Affordable at 35% of net income and purchase price (where applicable) is below 3.5 times the household's gross annual income	
Affordable at 35% of net income but the purchase price minus the deposit (where applicable) is above 3.5 times the household's gross annual income	
Unaffordable at 35% of net income	

TABLE 4.5**The proportion of income First time Buyer (FTB) housing costs take up household type and combined authority area**

	10	20	25	30	40	60	70	75	80	90
West of England	84	74	70	66	60	48	43	40	37	33
West Midlands	65	58	55	52	47	38	34	32	30	..
Greater Manchester	62	55	52	50	45	37	33	31	29	25
Tees Valley	55	49	47	45	40	34	30	28	26	..

TABLE 4.6

Affordability against a 35 per cent income target for a range of households in the West of England

		West of England								
		Single Person			Couple with one child			Couple		
		LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
Rental	£	16,202	26,291	28,117	22,851	34,854	39,895	32,404	42,314	56,233
	Median rent	70	43	40	50	32	28	35	27	20
	Social rent	20	13	12	14	9	8	10	8	6
	Affordable private rent	56	34	32	40	26	23	28	21	16
Rent to Buy / Shared ownership	Rent to Buy	56	34	32	40	26	23	28	21	16
	Cheyne model	70	43	40	50	32	28	35	27	20
	Shared ownership	52	32	30	37	24	21	26	20	15
Ownership	Median house price	85	53	49	61	40	35	43	33	25
	FTB	70	43	40	50	33	28	35	27	20
	Discounted market sale	56	35	32	40	26	23	28	21	16
	Starter homes	56	35	32	40	26	23	28	21	16
	Help to Buy	58	36	34	41	27	24	29	22	17

In the west of England, many affordable housing models are unaffordable to a range of households and incomes. For single people, only social rent is affordable to all income strata, while Rent to Buy, affordable private rent and shared ownership become affordable at or above median income. Discounted market sale, starter homes and Help to Buy are affordable as assessed against the 35 per cent net income measure, however are unaffordable on the 3.5:1 measure.

The affordability of the models increases for those in couples. For those with one child, all products are affordable at and above the local median income. However, many ownership models become unattainable using the 3.5:1 ratio. Discounted market sale and starter homes are unaffordable for those on median incomes and Help to Buy is not affordable for any income group.

Except for median priced owned accommodation, which is out of the reach of single households on lower quartile earnings, all models affordable at 35 per cent of net income for dual earning couples at all income points. However, discounted sale and starter homes are unaffordable using the 3.5:1 measure for lower quartile earnings and Help to Buy for median earners.

TABLE 4.7**Affordability against a 35 per cent income target for a range of households in West Midlands**

		West Midlands								
		Single person			Couple with one child			Couple		
		LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
Rental	£	15,134	19,721	25,888	21,771	28,147	37,038	30,268	39,442	51,777
	Median rent	46	35	27	32	25	19	23	18	13
	Social rent	22	17	13	15	12	9	15	8	6
	Affordable private rent	37	28	21	25	20	15	25	14	11
Rent to Buy / Shared ownership	Rent to Buy	37	28	21	25	20	15	25	14	11
	Cheyne model	46	35	27	32	25	19	32	18	13
	Shared ownership	36	28	21	25	19	15	25	14	11
Ownership	Median house price	55	42	32	38	30	22	38	21	16
	FTB	44	34	26	31	24	18	31	17	13
	Discounted market sale	36	27	21	25	19	15	25	14	10
	Starter homes	36	27	21	25	19	15	25	14	10
	Help to Buy	37	28	22	26	20	15	26	14	11

In the West Midlands, the greatest problem with unaffordability is related to single people with lower quartile earnings. Except for social rent, all models are unaffordable for those in this category.

All affordable housing models are affordable at 35 per cent of net income for single people at median income or above and for couples with and without children at all income levels. However, discounted market sale, starter homes and Help to Buy are unaffordable using the 3.5:1 measure for single households on median incomes and lower quartile earning couples with children.

TABLE 4.8**Affordability against a 35 per cent income target for a range of households in Greater Manchester**

		Greater Manchester								
		Single Person			Couple with one child			Couple		
		LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
	£	15,204	23,900	28,117	21,758	32,447	37,362	32,404	39,063	51,168
Rental	Median rent	46	29	25	32	21	19	21	18	14
	Social rent	20	13	11	14	9	8	9	8	6
	Affordable private rent	36	23	20	25	17	15	17	14	11
Rent to Buy / Shared ownership	Rent to Buy	36	23	20	25	17	15	17	14	11
	Cheyne model	46	29	25	32	21	19	21	18	14
	Shared ownership	33	21	18	23	16	13	16	13	10
Ownership	Median house price	84	53	45	59	39	34	39	33	25
	FTB	69	44	37	48	32	28	32	27	20
	Discounted market sale	55	35	30	39	26	22	26	21	16
	Starter homes	55	35	30	39	26	22	26	21	16
	Help to Buy	57	37	31	40	27	23	27	22	17

Rental models in Greater Manchester are affordable for most household types and income levels. Affordable private rent, the Cheyne rent to buy model and Rent to Buy are only unaffordable for single households on lower quartile incomes. For all other households, these come in at under the 35 per cent of net income threshold.

Except for shared ownership, which is affordable to all groups, ownership models are not affordable to lower quartile and median income single households or lower quartile earning couples with one child. Discounted market sale and starter homes fall below the 35 per cent of net income threshold but are not below the 3.5:1 ratio. All models are affordable across the income spectrum for dual earner households.

TABLE 4.9

Affordability against a 35 per cent income target for a range of households in the Tees valley

		Tees Valley								
		Single person			Couple with one child			Couple		
		LQ	Median	UQ	LQ	Median	UQ	LQ	Median	UQ
	£	14,992	23,368	25,288	21,503	31,983	36,483	29,984	46,736	50,577
Rental	Median rent	37	24	22	26	17	15	19	12	11
	Social rent	19	12	11	13	9	8	10	6	6
	Affordable private rent	30	19	18	21	14	12	15	10	9
	Rent to Buy	30	19	18	21	14	12	15	10	9
Rent to Buy / Shared ownership	Cheyne model	37	24	22	26	17	15	19	12	11
	Shared ownership	32	20	19	22	15	13	16	10	9
Ownership	Median house price	47	30	28	33	22	19	23	15	14
	FTB	38	24	22	26	18	16	19	12	11
	Discounted market sale	30	19	18	21	14	12	15	10	9
	Starter homes	30	19	18	21	14	12	15	10	9
	Help to Buy	32	20	19	22	15	13	16	10	9

Tees Valley has the greatest levels affordability of all the four areas. At the 35 per cent of net income threshold, the only alternate product that is unaffordable is the Cheyne rent to buy model, although this is confined only to single households on lower quartile incomes.

Nonetheless, several home ownership models are unaffordable under the 3.5:1 ratio. No home ownership models are affordable to single households on lower quartile and median earnings or to couples with lower quartile earnings.

These tables reveal that across combined authorities there are few options for single people. This is most acute in the west of England, where house prices and median rents are highest, but is a problem across all four areas, even the Tees Valley, which has house prices notably lower than the English average.

Dual-earning couples, even those with lower quartile earnings, can afford most models in most areas. However, when this income is diminished by the removal of a full-time earning as in the case of couples with one child (1x FTE and 1x PTE) a much larger range of models become out of reach, particularly for those on lower incomes.

Many households are priced out of affordable home ownership models. While in many cases households can afford the monthly costs (using the 35 per cent of net income measure), the overall purchase price is too high for them to access a mortgage. In all areas, although most severely the west of England, this effects a much greater number of households and raises the unaffordability to higher income deciles.

The ability of intermediate housing models has been assessed separately. Analysis has been undertaken, presented in Table 4.10 to determine whether households will be able to ‘progress’ to ownership by raising a deposit.

TABLE 4.10

Proportion of a combined authority in which a model scales up to a deposit, by model

	Rent to Buy				Cheyne			
	FTB		Shared Ownership		FTB		Shared Ownership	
	5 Years	10 years	5 Years	10 years	5 Years	10 years	5 Years	10 years
West of England	0%	100%	100%	100%	100%	100%	N/A	N/A
Greater Manchester	0%	100%	100%	100%	100%	100%	N/A	N/A
Tees Valley	0%	100%	100%	100%	100%	100%	N/A	N/A
West Midlands	0%	100%	100%	100%	100%	100%	N/A	N/A

The Rent to Buy model, in which a tenant receives rent subsidised to 80 per cent of market value and is expected to save to the remaining 20 per cent towards a deposit, is found to be effective. Over both 5 and 10 years, the model is effective in raising a sufficient deposit towards a shared ownership home, and over 10 years for outright ownership in all areas.

The Cheyne model, in which a tenant can buy their property after living in it for 5 years for 90 per cent of the market value at the time the tenancy was taken out, using the difference to secure a mortgage, is effective in all areas at both 5 and 10 years for both shared and outright ownership.

Given their affordability at 35 per cent of net income for a number of household and income combinations and their capacity in raising a deposit, these schemes appear to be effective in these areas in progressing households to ownership. However, this is of course confined largely to couples and those on average or above average incomes.

Drawing this information together shows that those on single, low or middle incomes have fewer affordable housing options available to them. This is a problem across all combined authority areas, where single people, or households on single incomes, are much less likely to be able to afford the monthly costs associated with different housing models. For those on the lower quartile, single adults can afford few models across the four areas. Ownership models particularly are failing to support those on low incomes. In the west of England, ownership models are not affordable to any household type while in the other study areas, these models do not become affordable to households until they have 1.5 or 2 incomes.

Nonetheless, given that affordable ownership housing models are failing to support those on the lowest incomes, those receiving this support are likely to be relatively affluent households. This should be a key area of reflection for mayors in determining the nature of the affordable housing they build.

5.

CONCLUSION: TOWARDS A MAYORAL AFFORDABLE HOUSING POLICY

The data analysed in this paper adds further evidence to the fact that England faces a severe housing crisis, marked by a failure to build sufficient new homes and ever decreasing affordability. The areas picked as case studies represent a range of housing markets. In each, affordable housing delivery is falling well behind estimated need and for a range of households maintaining housing costs is likely to be a challenge.

Beneath top line figures which show above average affordability in the three of the four areas we have examined, many face issues with affordability, and the models available to address this are insufficient. This then raises significant questions about the appropriate use of public subsidy and whether it is in fact going to the right people and addressing the correct problems. Drawing on this analysis and examples of good practice across the four areas, it is possible to present recommendations for mayors in these areas and in the rest of the country.

1. A stronger approach to affordable housing at a national level

In London, the mayor has introduced the '35 per cent threshold approach' to affordable housing in new housing guidance which, broadly, waives the need for a viability assessment if a development provides for at least 35 per cent affordable homes (measured by habitable rooms). The intention of this proposal is to set a new benchmark for the proportion of affordable homes delivered in each development to drive up affordable supply.

We argue, as others have (NHF 2017b), that the government should follow this approach outside of London and set a national minimum threshold of 35 per cent for affordable housing on all private developments, with a higher threshold of 50 per cent on all public land.

In line with the London approach, this would help eliminate costly delays and the need for viability assessments above these levels. It would ensure that the need for the provision of affordable housing was reflected in land values and help drive up affordable housing output.

2. Lift the Housing Revenue Account borrowing cap

The government should support a large-scale council house building programme by removing the arbitrary cap placed on borrowing through the Housing Revenue Account. Removing the cap will allow local authorities to borrow to invest in the building of a new generation of council homes.

3. Devolve greater powers to Mayors to deliver the housing their regions need

Examining the combined authorities' devolution deals set out in this paper reveals a lack of uniformity in the nature of powers transferred to mayors. This is borne from the deal-based approach to devolution, from which an overarching

framework has been lacking (Hunter 2017). In committing to address the housing crisis, government should work with combined authorities to offer a new, comprehensive devolution offer for housing.

A number of additional powers are needed to allow mayors to get on with building more homes. Previous work by Snelling and Davies (2017) has set out what these powers should be. They are:

- greater flexibility in the pooling and coordination of housing funding streams, allowing combined authorities to gather resources and coordinate activity in a way that ensures appropriate tenure mix while still meeting volume requirements
- retention of stamp duty receipts on all new-build properties, to top up housing investment funding
- a lifting of National Planning Policy Framework (NPPF) land use restrictions where brownfield opportunities alone are insufficient to deliver the housing supply that is estimated
- powers to set planning fees to improve capacity in planning departments
- council tax flexibility on empty sites and empty homes to accelerate the process of bringing unused homes back into use and putting unused planning permissions into action
- powers to set design code standards and viability frameworks at a combined authority level, and to de-risk planning and improve the quality of the built environment.

In addition, the government should also:

- devolve a proportion of the budget for the Help to Buy Equity Loan Programme to combined authorities, for the mayors to use as they see fit
- re-allocate the funding for the Starter Homes programme to a programme for investing in genuinely affordable homes for rent, and devolve the appropriate proportion to the combined authorities.

4. A clear measure of affordability, and mapping the affordability of sub-market housing products

Recent changes by central government to affordable housing have driven a rapid change in what is understood as 'affordable'. Increasingly, affordable housing products have become divorced from earnings and linked to market prices or rents instead. The generally understood definition of affordable housing, 35 per cent of net earnings, is rarely applied to new affordable housing products. The analysis contained in this report shows that the extent to which these models meet the needs of households differs across a range of housing markets. Accordingly, there is a need for a universally understood affordability measure, linked to earnings, which should be developed and agreed by mayors and applied transparently for every affordable housing product – with the development of an affordability matrix that sets out when each product becomes affordable.

5. Clear targeting of subsidy to meet stated aims

This research has demonstrated that many home ownership products designed to help people on lower to middle incomes in to home ownership are actually only affordable in a large number of cases to those on higher incomes. Moreover, the evidence suggests that many products are assisting those who would have been able to buy anyway. Subsidy should be targeted at those products which are clearly affordable, and it should be withdrawn from products that do not meet the need of those for whom they are designed to assist.

6. Mayors should establish combined authority-wide Mayoral Housing Companies, using them to bring land to market for social and affordable rent and using mechanisms to capture public value from the land

Mayors should build on the successes of the local authorities who have, in varying ways, established publicly-owned vehicles for bringing land to use, capturing value for residents. Scaling up these organisations to a combined authority level will allow them to be bolstered by the mayor's powers, principally the ability to establish asset boards and their compulsory purchase order powers.

One method by which this could be achieved is set out below.

1. The mayor establishes a Mayoral Housing Company (MHC) and works with combined authority asset boards to examine the land across all public-sector organisations in the region and identify a potential site or sites.
2. The MHC partners with a development partner to construct the homes on the site.
3. The MHC retains the value of the land, securing a long-term income stream which can be reinvested into other projects or paid out in dividend to the combined authority.
4. The MHC develops and constructs a mix of properties for rent on different models, including social rent and other affordable rent products (where they are affordable locally). This creates a mixed community and meets the range of housing needs.

While different models may work more effectively in different areas and contexts – for example, areas with significant regenerations may find a Mayoral Development Corporation to be the most effective model – a MHC should abide by two principles. Firstly, the homes it builds should be genuinely affordable, responding to local need. Secondly, the public should hold some or all the value of the land in the long term.

7. Local authorities and local authority pension should work together to combine their land and investment to build affordable housing

Building on the success of existing schemes such as the Manchester Matrix model, local pension schemes and local authorities should work together to bring forward land and funding for affordable housing schemes, generating a stable return on investment for both parties and bringing on to market much needed affordable housing.

8. Support of innovation and encouragement of the development of alternative affordable housing models

There are clear examples of innovation outside the traditional products within affordable housing, some of which are highlighted in this report. The government and mayors should consider how new and innovative products might contribute to meeting affordable housing need. It will also be essential to consider other alternative delivery models. The Conservative Party manifesto at the general election set out bold plans for new council housing deals, which included the reform of compulsory purchase orders to make them easier and less expensive for councils to use, and to enable them to buy land at a lower value.

The newly elected mayors should pursue the devolution and implementation of such powers from central government. This would allow affordable housing to be funded at lower costs, ensuring more affordable housing to rent or buy and greater potential benefits for local communities. This model of delivery would also allow greater innovation in the type of affordable products delivered.

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ANNEX

To understand how genuinely affordable each affordable housing product is, we compared the affordability of each product to rent and to buy against a 35 per cent of net income target. For each product to buy, we also applied a loan-to-income ratio of 3.5:1 to ensure it was realistic that each household could access a mortgage.

OWNERSHIP MODELS

House prices

Median house price: The median house price used in the affordability modelling was based on Land Registry data (ONS 2017b) using third quarter of 2016 data.

First-time buyer price and house price used in the modelling for each home ownership product: The first-time buyer price and the house prices used for each home ownership product have been based on a modelled first-time buyer price for across London and in each local authority. Median first-time buyer prices are not available at the borough level. The average ratio of the all-property price available from Nationwide House Price Index compared with the first-time buyer price was calculated over four quarters (third and fourth quarter of 2016 and first and second quarter of 2017) (Nationwide 2017a, 2017b) and then applied to the median house price figure available from ONS data (ONS 2017b) using third quarter of 2016 data. There is likely to be some variation of first-time buyer prices across the areas studied which the ratio will not sufficiently account for – however the ratio has been applied to the starting price for each home ownership product and therefore impacts each one in the same way.

MORTGAGE, DEPOSIT AND RENT CALCULATIONS

Outright ownership (median house price and first-time buyer price): The mortgage costs are calculated assuming a 90 per cent loan-to-value (LTV) mortgage over 25 years with an annual interest rate of 3.34 per cent APR.⁵ It is assumed that each buyer can provide a 10 per cent deposit of the value of the property.

Help to Buy: The mortgage costs are calculated assuming a 75 per cent LTV mortgage over 25 years with an annual interest rate of 3.34 per cent APR. It is assumed that each buyer provides the minimum five per cent deposit of the value of the property and takes out a Help to Buy equity loan of 20 per cent. Equity loans through Help to Buy are fee free for the first five years, and these calculations have not included the fee which is levied from the sixth year. The fee is 1.75 per cent of the loan's value in the sixth year and then increases every year according to the Retail Prices Index plus one per cent. The value of the property against which these calculations are made is the modelled first-time buyer price, set out above, at the London level and the borough level.

Starter homes and discounted market sale: The mortgage costs are calculated assuming a 90 per cent LTV mortgage over 25 years with an annual interest rate of 3.34 per cent APR. It is assumed that each buyer can provide a 10 per cent deposit of the value of the property. The value of the property against which these calculations are made is the modelled first-time buyer price, set out above, with the 20 per cent discount applied on top.

⁵ Based on the current UK average mortgage rate. See: <http://www.totallymoney.com/mortgages/rate-predictions/>

Shared ownership: Shared ownership costs are calculated based on a household taking out a 25 per cent stake in their property with a 90 per cent LTV mortgage over 25 years with an annual interest rate of 3.34 per cent APR. It is assumed that each buyer can provide a 10 per cent deposit of the value of the stake of the property being purchased (25 per cent). Average national service charge costs (£93.58) are added to the monthly cost.⁶ The value of the property against which these calculations are made is the modelled first-time buyer price, set out above.

Cheyne model: As with all of the rent-to-buy models, the monthly costs are calculated based on the rental costs (i.e. those needed to first access the property) rather than the potential mortgage costs if the household were to purchase the property. For the Cheyne model, the rental costs used are the monthly median private rent of a two-bedroom property (VOA 2017).

For the purposes of the loan-to-income calculation, it is assumed that each buyer will access a 75 per cent LTV mortgage providing a 25 per cent deposit of the value of the property based on the average deposit that can be saved through the Cheyne model.⁷

Rent to Buy: As with all of the rent-to-buy models, the monthly costs are calculated based on the rental costs (i.e. those needed to first access the property) rather than the potential mortgage costs if the household were to purchase the property. For the Rent to Buy model, the rental costs used are 80 per cent of the monthly median private rent (VOA 2017).

For the purposes of the loan-to-income calculation, it is assumed that each buyer will access a 90 per cent LTV mortgage providing a 10 per cent deposit of the value of the property – however, as outlined in the analysis, it would not be possible in most cases for the deposit to be raised through saving the difference between the discounted rent and the market rent alone.

LOAN-TO-INCOME RATIO

To calculate whether a household would actually be able to attain a mortgage, we have used a standard loan-to-income ratio of 3.5:1. For each product, the loan value used in this calculation depends on the assumptions set out for each model above.

RENTAL MODELS

Social rent: The rental costs used are an average of the local authority average weekly rents (DCLG 2017d) and private registered provider weekly rents (DCLG 2017e).

Affordable Private Rent: The rental costs used are 80 per cent of the monthly median private rent of a two-bedroom property in local authority area (VOA 2017).

Lower quartile rent: The rental costs used are the monthly lower quartile private rent of a two-bedroom property in each local authority area (VOA 2017).

Median rent: The rental costs used are the monthly median private rent of a two-bedroom property in each local authority area (VOA 2017).

⁶ Based on a market study by the Competition & Markets Authority. https://assets.publishing.service.gov.uk/media/547d99b8e5274a42900001e1/Property_management_market_study.pdf

⁷ PPR analysis of information provided by Cheyne.

DEPOSIT MODELLING

For the purpose of modelling how much could be saved for a deposit, a calculation was made for each model based on what could be saved for each year over a five-year and then a 10-year period.

Rent to Buy: Rent levels are assumed to be 80 per cent of median rent for a two-bedroom property, with households saving the difference between that and the market rate over a five-year and then a 10-year period.

Cheyne rent to buy: It is assumed that at the end of the fifth year, households are able to purchase the property at 90 per cent of its original value (providing an automatic deposit of 10 per cent), with the value of the house price inflation (HPI) over that period added to the discount. At the end of the 10th year, it is assumed that households are able to purchase a property at its original value plus five years of consumer price inflation (CPI), again with the value of the house price inflation over that period added to the discount.

INCOME

TABLE A.1

For the affordability analysis, three household types were used

Household type	Earnings
A single person working full time	Full-time earnings for all employees (ONS 2016b)
A couple with one child, with one person working full time and one person working part time	Full-time earnings for all employees + part-time earning for all employees + child benefit for one child (ONS 2016b)
A couple both working full time	Full-time earnings for all employees x 2 (ONS 2016b)

To calculate net income, a standard tax calculator was used to produce income figures after income tax and National Insurance.

The following figures are used to test affordability by decile in each of the combined authority areas.

TABLE A.2

Area	Income percentiles									
	10	20	25	30	40	60	70	75	80	90
West of England CA	14,617	16,534	17,552	18,690	20,438	25,415	28,513	30,460	33,167	37,183
Greater Manchester CA	13,934	15,614	16,471	17,173	18,989	23,286	25,996	27,716	29,690	34,777
Tees Valley CA	13,720	15,449	16,241	17,051	18,918	22,646	25,502	27,396	29,216	–
West Midlands CA	13,915	15,618	16,395	17,260	19,131	23,507	26,118	28,046	30,044	–

LIMITATIONS

A number of assumptions have been made in order to produce an affordability assessment of a varied number of housing models. Different assumptions could be made to produce the analysis but the authors believe this is a reasonable and balanced analysis which provides a macro picture of the affordability of a different range of affordable and subsidised housing products.

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