Making Housing Affordable Again: Rebalancing the Nation's Housing System

Full report

The final report of the Affordable Housing Commission

Affordable Housing Commission

About us

Affordable Housing Commission

The Affordable Housing Commission (AHC) is an independent, non-partisan group established by the Smith Institute with the support of the Nationwide Foundation. It is chaired by Lord Best with 14 leading players from across the housing world. Its core objectives are to: examine the causes and effects of the affordability crisis; explore and propose workable solutions (big and small); raise awareness of the concerns and solutions (among practitioners, decision-makers and the public); engage stakeholders and build a consensus for change.

Further information on the Commission can be found at www.affordablehousingcommission.org

The Smith Institute

The Smith Institute is an independent think tank which provides a high-level forum for thought leadership and debate on public policy and politics. It seeks to engage politicians, senior decision makers, practitioners, academia, opinion formers and commentators on promoting policies for a fairer society.

For more information visit: www.smith-institute.org.uk

Nationwide Foundation

As an independent charity, the Nationwide Foundation influences changes to improve circumstances for those people in the UK who most need help. Its vision is for everyone in the UK to have access to a decent home that they can afford, and its strategy seeks to improve the lives of people who are disadvantaged because of their housing circumstances. To do this, it aims to increase the availability of decent affordable homes. The Decent Affordable Homes strategy began in 2013 and the Nationwide Foundation is committed to this strategy until 2026.

The Nationwide Foundation was established by Nationwide Building Society in 1997 as a fully independent foundation. It is a registered charity (no. 1065552) and a company limited by guarantee in England and Wales (no. 3451979).

For more information on visit: www.nationwidefoundation.org.uk

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Foreword

After 18 months of studying the misery caused by housing affordability problems, the Affordable Housing Commission has not discovered a silver bullet that could fix everything. But we did unearth an underlying cause of so many households struggling with disproportionate housing costs: it is the switch into the private rented sector (PRS) - which has more than doubled in size in less than twenty years - from both social renting and from home ownership.

The scaling back - indeed the halving - of the social housing sector has pushed more people into the private rented sector where there is less security and significantly higher rents; and the obstacles for potential first time buyers have also confined more of them to private renting where they too face less security and, over a lifetime, greater cost.

Our report's extensive list of recommendations, therefore, suggests ways of rebalancing the nation's housing to secure more social rented housing and more affordable home ownership, for those for whom private renting is not the best option.

Now we hope to join forces with all housing policy-makers and practitioners who share our ambition to end affordability problems in a generation.

The Commission is indebted to those who participated in our many seminars, conferences, focus groups, polls and surveys, and to those 90 contributors who submitted invaluable evidence. Sincere thanks go to the Nationwide Foundation for supporting this extensive exercise and to the Smith Institute – to Paul Hackett and Paul Hunter – for researching, scripting and managing the whole process with great skill and enthusiasm.

I am extremely grateful to my fellow Commissioners who have seen this through to a unanimous report. I hope the reward for everyone's endeavours will be a wider recognition by policy makers – not least in forthcoming government White Papers and the next Spending Review – that housing affordability must now rank among the nation's highest priorities.

Richard Best

Lord Richard Best, Chair of the Affordable Housing Commission

Preface

The homes people want, in the places they need to live, are becoming more and more unaffordable. Ordinary people are struggling with housing costs and for some this means being pushed deeper into poverty, leaving no money behind once their rent or mortgage have been paid. For the most vulnerable families and individuals in our society, having nowhere suitable to live has lasting and damaging consequences.

As a funder committed to long-term system change, our vision is that everyone should have access to a decent affordable home. It is to this end that we funded the Affordable Housing Commission.

We believe the Commission's powerful recommendations and robust analysis of the housing system, through the lens of affordability, provide an opportunity for real change. Therefore, we are passionate that the legacy of the Commission should be the formation of a coalition of the willing. It is our hope that this alliance helps to lead to the creation of a modernised housing system where everyone has choice, freedom and stability.

Leigh Pearce, Chief Executive of the Nationwide Foundation

The Affordable Housing Commission

The Affordable Housing Commission was established in October 2018. It was formed as an independent, non-partisan group established by the Smith Institute with the support of the Nationwide Foundation. It is chaired by Lord Richard Best with 14 leading players from across the housing world.

The Commissioners

- Lord Richard Best, Chair
- Claire Ainsley, Executive Director, Joseph Rowntree Foundation
- Sinéad Butters, Chief Executive, Aspire and Chair, PlaceShapers
- Ian Fletcher, Director of Policy, British Property Federation
- Professor Ken Gibb, Director, UK Collaborative Centre for Housing Evidence
- Robert Grundy, Head of Housing, Savills
- Kate Henderson, Chief Executive, National Housing Federation
- Lindsay Judge, Senior Research and Policy Analyst, Resolution Foundation
- Geeta Nanda, Chief Executive, Metropolitan Housing Association and member of the London G15
- Jo Negrini, Chief Executive, London Borough of Croydon
- Martin Newman, Co-founder and Co-ordinator, Giroscope
- Jenny Osbourne, Chief Executive, TPAS – the tenant engagement experts
- John Slaughter, Director of External Affairs, Home Builders Federation
- Gavin Smart, Chief Executive, Chartered Institute of Housing
- Dan Wilson Craw, Chief Executive, Generation Rent

The Commissioners are members of the Affordable Housing Commission in a personal capacity. The views expressed in this report do not necessarily reflect the views of their organisations.

Terms of reference

The country is in the middle of an acute and worsening affordable housing crisis. The problem has taken root well beyond the capital and is affecting not just the young and those on the lowest incomes. Yet housing affordability is poorly understood, and policy makers and politicians have struggled to find any lasting solutions. The Commission will address these concerns. Its core objectives are to:

- examine the causes and effects of the affordability crisis and how it relates to tenure, place, demographics, incomes, wealth distribution and life chances, as well as the social and economic impacts;
- explore and propose workable solutions (big and small);
- raise awareness of the concerns and solutions (among practitioners, decision makers and the public); and
- engage stakeholders and build a consensus for change.

Work programme, reports and activities

The Commission embarked on an extensive work programme, which included data analysis, quantitative and qualitative research (including focus groups and opinion polling), a call for evidence, consultation meetings and interviews with stakeholders and other interested organisations, and a series of events and conferences.

The Commission met seven times and Commissioners kept in regular contact remotely, helping with the research, analysis and promotional work. A dedicated website was established, which hosted the Commission's reports and included a bulletin page on relevant news and research.

- Call for evidence: the call for evidence was held in the first quarter of 2019. The Commission received 90 submissions from a cross-section of individuals and organisations.
- Research: an extensive literature review was undertaken, alongside data analysis and new research.
- Polling and focus groups: two national opinion polls were undertaken (with YouGov) in October 2018 and February 2019; and three focus group sessions were held in North Birmingham in December 2018 and a deliberative workshop in North Birmingham in May 2019.
- Meetings and interviews: these were held with a wide range of stakeholders, including ministers, parliamentarians, councillors and metro mayors; civil servants, regulators and public agencies; academics, think tanks and experts; business and unions, and housing and planning practitioners, advisers and campaigners.

- Events and conferences: the chair, commissioners and the secretariat spoke at several conferences, including national and regional housing conferences. A series of consultation events were held in London and the regions (in Leeds, Manchester, Bristol, and Birmingham, and with the TCPA in Exeter, Nottingham, Warwick and York).

The Commission published several interim reports, including: *Defining and Measuring Housing Affordability – an Alternative Approach* (June 2019); *Why is Housing Unaffordable: a Literature Review for the Affordable Housing Commission* (June 2019); *Public Views on Unaffordable Housing: Focus Groups Conducted for the Affordable Housing Commission* (February 2019); and *Defining Affordability: AHC Focus Groups* (February 2019).

An animation on housing affordability (co-produced with CaCHE) was released by the Commission in January 2020 – *Why is housing so expensive*? It can be viewd on the CaCHE and AHC's websites and on youtube: https://www.youtube.com/watch?v=czywtm0PqfI

The Smith Institute acted as the secretariat to the Commission. The Nationwide Foundation sponsored the Commission and supported its work.

More information is available from affordablehousingcommission.org/

Email: info@affordablehousingcommission.org

Twitter: @AHC_Housing

Executive summary

Over the past 18 months the independent Affordable Housing Commission has undertaken a wide-ranging review of housing affordability in England. This – the final report, based on considerable evidence and new research – has over 50 recommendations covering key supply and demand aspects of affordability across all tenures and housing markets.

The in-depth analysis and proposals seek to inform, engage and influence the housing world, politicians and policy makers, as well as the wider public and others who are affected, including local government, business, and the voluntary sector.

The Affordable Housing Commission is calling on government:

- **to rebalance the housing system to provide affordable housing opportunities for all by 2045;**
- **to make affordable housing a national priority and to put it at the centre of a national housing strategy;**
- **to adopt a new definition and measures of housing affordability, which relate to people's income and circumstances;**
- **to increase investment in new social housing, alongside reforms to help rebalance the system away from the private rented sector to social housing;**
- **to constrain rent increases, end Affordable Rent and reform the right to buy;**
- **to support first-time buyers stuck in the private rented sector by levelling the mortgage market, providing targeted support for deposits and increasing supply; and**
- **to improve the safety net for struggling renters and home owners, and to bring all homes up to a safe and decent standard.**

Overview

The Commission's findings and recommendations are intended to help forge a cross-party consensus. It is not an exercise in apportioning blame – the affordability crisis has been decades in the making. Instead, the Commission has proposed practicable ways to reduce the hardship and stress caused by the lack of 'genuinely' affordable existing and new homes.

There are no simple answers. As the report illustrates, housing unaffordability is related to a host of factors and trends – not least flat income growth and low interest rates. However, without action, the situation is likely to worsen, as Generation Rent ages and more households will have no housing option except renting in the private rented sector (PRS) at costs which can lead to arrears, debts, stress and poor health. There will also be wider societal costs and growing housing benefit expenditure.

Connecting the solutions will be challenging and it is important to ensure that all parts of the housing system – public and private – contribute. Change is happening, but the Commission believes a major adjustment to the housing system is needed. What we are seeking is a "coalition of the willing". A collective effort, led by government, to make housing affordable again.

Affordable housing opportunities for all by 2045

A failure to reverse the tenure shift away from social housing and towards the PRS will place more people under housing stress. The Commission believes it is not right that so many households find themselves locked in poverty or under acute housing stress due to their housing costs. It is also unfair that so many struggling private renters are being priced out of home ownership.

On current trends, in 25 years a further 400,000 social rented homes could be lost. This would shrink social rented housing from its peak of a third of the nation's homes to just 11%. More people will then have to rely on private landlords.

Conversely, if the Commission's recommendations were carried forward, then social housing could increase to over a fifth of the total housing stock, with the PRS contracting over time, perhaps toward its level of a decade ago. Home ownership, meanwhile, would increase. This outcome would help to stabilise the system and allow millions more people to access affordable housing.

The Commission recommends that the government commits to ensuring that no child born today should face living in housing that is unaffordable for them by the time they are likely to form a household of their own. Across tenures, this would mean access to affordable housing opportunities for all by 2045.

To meet this target, the Commission recommends central government works with local government to draw together a National Housing Strategy, adopting recommendations from this and other reports.

Rebalancing the housing system

The report calls for a rebalancing of provision, notably between the PRS and the social housing sector. The Commission holds the view that significant parts of the much enlarged PRS are not suited to delivering homes for all the households who must now turn to it, and that the much reduced social housing sector has become too small to fulfil the vital role it should be playing.

At the same time, because the building of new homes has been left mostly to the major housebuilders, and the provision of social housing from councils and housing associations has been at much reduced levels, a persistent shortfall in affordable supply has exacerbated the position. High house prices and rents have added to housing stress and constrained home ownership.

These factors have led the Commission to call for both an extensive expansion of social housing provision and additional help so more people can become home owners. Our recommendations aim to ensure that, over the years ahead, there is not just more affordable housing for those on lower incomes but also more (sustainable) home ownership for those currently denied the chance to buy. Our overarching message is that whatever tenure people live in, they should have a secure and decent home at an affordable price.

The Commission's focus group sessions with renters revealed:

- strong feelings that the system isn't fair and "favours those with money";
- that private renters are "fed up with high rents";
- support for intervention in the market, especially rent regulation;
- a frustration that "saving to buy is impossible";
- a need for social housing, which however is seen as "housing for others"; and
- that new homes are expensive and "not for us".

"Let the landlords sell – we can buy the flats"

"Older people have had 40 years of chance, what can we do now for the future?"

"All the new houses are cheap and rubbish. They won't go up in value in 20 years."

Why is housing affordability so important?

Housing unaffordability is a significant cause of many of the nation's social and economic ills. It is the lack of affordable housing that so often lies behind the problems of poverty, homelessness, debt, family breakdown, mental and physical poor health. Housing stress also has negative effects on people's life chances – as well as on local communities, business, the wider economy and public spending. The Commission's findings show that:

- Rent arrears, debt and financial exclusion are major issues for many – because struggling renters are trying unsuccessfully to pay their rents.
- Improvements in standards of living are being held back – because housing

costs for increasing numbers absorb such a large amount of their income.

- Many working people are frustrated that they cannot achieve home ownership – because it is impossible for most tenants to save a deposit when rents consume so much of their income.
- There has been an increase in the number of young adults reluctantly staying with their parents – because the only housing available is in the PRS at rents they cannot afford.
- Housing benefit costs have risen by 40% since 2001 – because rents and housing benefit costs per claim are higher.
- Councils in England are faced with households made homeless when their (shorthold) tenancy has been ended – because benefit reductions have meant tenants cannot afford to stay in their private rented accommodation.
- Numbers of families in highly unsatisfactory temporary accommodation have risen, at a cost of over £1 billion a year – because those families (in work as well as with no earnings) cannot afford anywhere to live.
- Employers cannot recruit and retain the people they need, and productivity is affected – because high housing costs prevent would-be employees from moving to take up jobs and the workforce is displaced to a greater distance from the workplace.
- Over half of benefit claimants renting privately are in poverty – because the risk of poverty after housing costs increases substantially for those in the PRS compared with those in social housing.
- Housing inequality is a cause of inter-generational friction – because of the divide between older owners with appreciating property assets, and a younger generation of renters who must devote such a high proportion of their earnings to unaffordable rents.

Redefining housing affordability

The Commission has adopted a basic tenet: "Your housing costs should not exceed 33% of your net income". In addition, incomes are equivalised to take account of family size and formation.

We regard rents, and the cost of buying a home, as creating an affordability problem where costs exceed this level. And we are particularly concerned at the numbers – mostly in the PRS – who are paying more than 40% of their net income for their housing.

However, for those in poverty and reliant on benefits, affordability depends on housing support, either housing benefit or the housing element of universal credit. If the rent is more than the support provided, the tenant will have to make up the shortfall by using benefits provided for food and other non-housing living costs – so their home is simply not affordable.

The Commission was also of the view that affordability could not come at the expense of quality. Therefore, those living in non-decent or overcrowded housing are also included in our alternative definition and measures of affordability.

Who is most affected?

The Commission identify three groups under the most housing stress: struggling renters, struggling home owners, and struggling older households. Together these add up to 4.8 million households, representing one in five of all households in England and almost 40% of those in the lower half of the income distribution.

Around 1.3 million are in the social housing sector, where rents are lower but so are incomes. This is predominantly about problems with inadequate benefits (as well as overcrowding and stalled progress on bringing all homes to a decent standard), rather than the cost of rents.

A further 1.6 million are in the owner-occupier sector, a large proportion being older home owners on low incomes in unfit properties.

But it is in the PRS that the greatest problems are found, with 2 million households in potential difficulty – representing 43% of all households renting privately. And the households devoting 40% or more of their incomes to rent – the group at highest risk – are predominantly in the PRS.

Number of households under retirement age, by rent-to-income (% of all renters)

	No affordability issue	33-39%	40%+
Social housing	87%	6%	7%
PRS	71%	6%	23%

In addition, we identify a fourth group: frustrated home buyers, mostly in the PRS, for whom lenders' requirements for mortgages or inadequate incomes make home ownership impossible.

The Commission proposes a new definition and alternative measures of housing affordability, focused on incomes and personal circumstances, rather than market prices. Our measures are based on an affordability threshold at the point when rents or purchase costs exceed a third of net equivalised household income (and take account of related affordability issues, such as housing quality, overcrowding, adequacy of housing benefit, household size and regional variations).

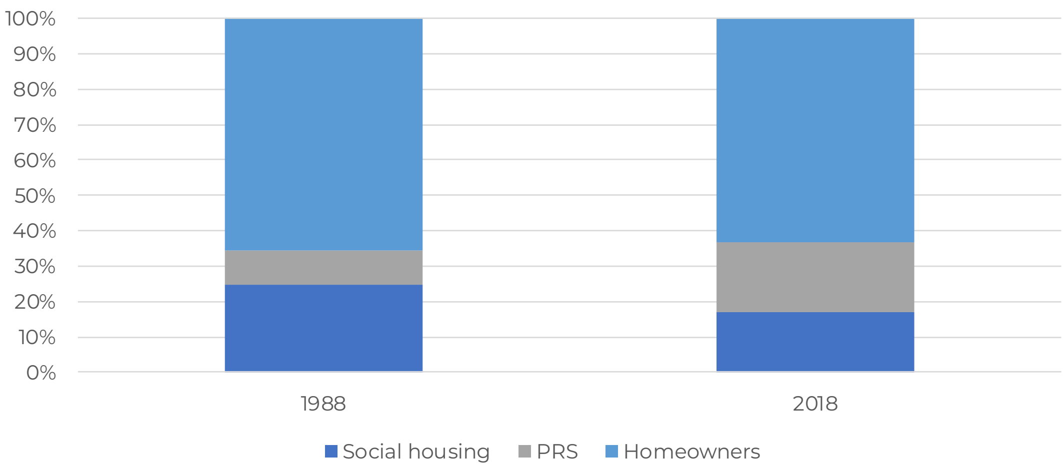
What has caused the problem?

The most striking change in housing over recent decades is the more than doubling in the size of the PRS – up from less than one in 10 homes to around one in five, in just 20 years. Meanwhile the social housing sector has halved from its peak and shrunk from being three times the size of the PRS to appreciably smaller than it.

The switch to private renting

There are now twice as many households in the PRS, where rents are higher (twice as high on average and three times higher in London). And the biggest shift towards the more expensive PRS has taken place among those on lower incomes.

Tenure change over the past 30 years



Source: MHCLG, Live table 104

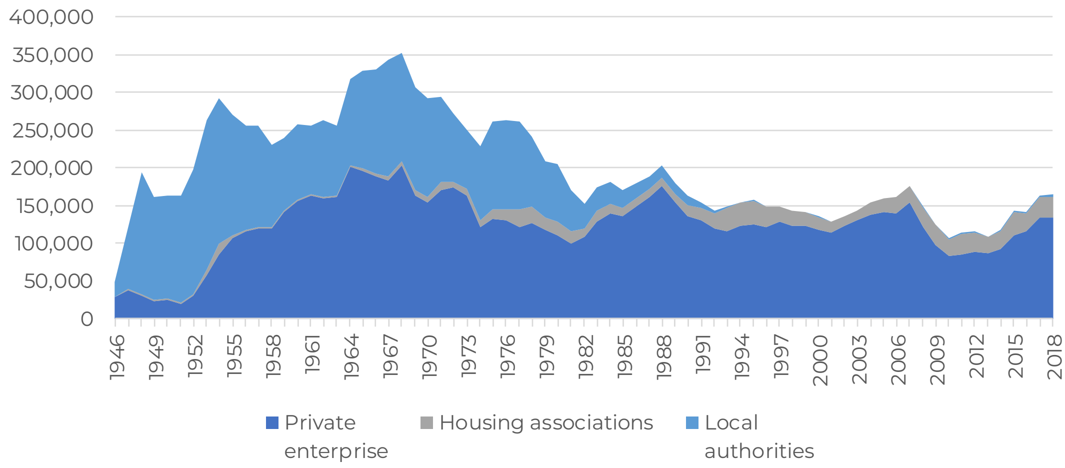
The switch away from social housing

There has been a significant shift away from social housing. The reasons include:

- Decline of council house building: the annual building programmes of local authorities fell from peak years - averaging over 100,000 a year in the 1960s/1970s, to virtually nil by the 1990s, and have barely recovered.

- Smaller build programmes for housing associations: provision of social housing, both through acquiring new homes from the private sector via the planning system (section 106 agreements), and by building new homes themselves, has been at considerably lower levels than earlier council programmes. Grants to housing associations have halved since 2010 and housing support has switched from investing in social housing to subsidising rents.

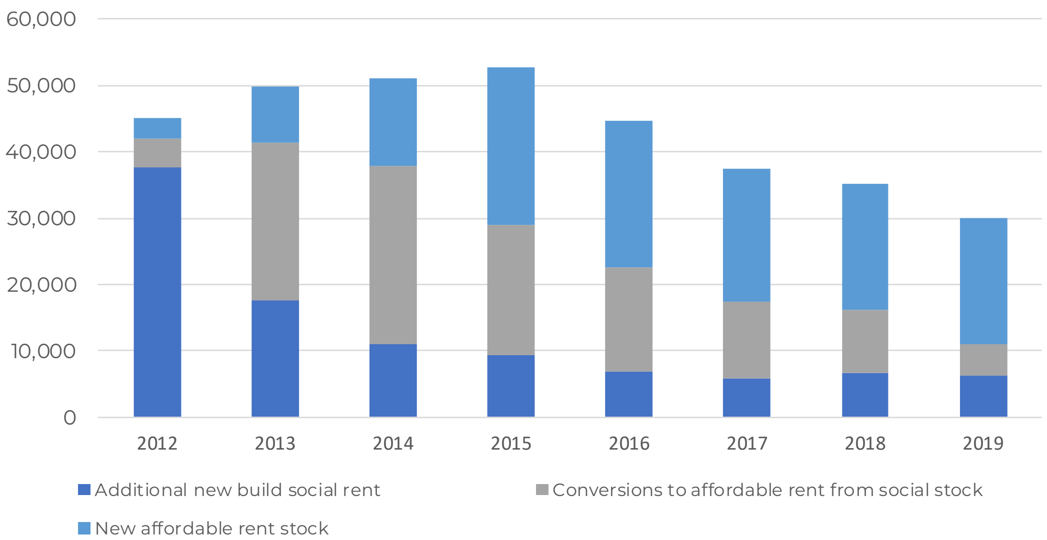
New build by tenure, England



Source: MHCLG Live table 244

- Sales of council housing under the right to buy (RTB): these have depleted the social stock by some 2 million rented homes since 1980. Hundreds of thousands of the properties purchased under the RTB scheme have moved into the PRS.
- Switch to Affordable Rent: provision of homes at social rents has been replaced in recent years with lettings at higher rents – labelled “Affordable Rent” (equivalent to 80% of market rents in most part of England and 60% in London). Social landlords have relet over 100,000 existing properties at Affordable Rent, further diminishing the amount of housing that households can afford.

The rise of Affordable Rent and the fall in new social rented housing



Sources: MHCLG Live Table 1000 and Regulator of Social Housing, Statistical Data Return

When we bring together the numbers of social rented homes – i.e. the homes with rents within the Commission’s definition of affordability – we face a worsening situation. The combination of demolitions, conversions to Affordable Rent and RTB sales exceeds the number of newly built social rented homes by 17,000 a year. If this decline continued, the number of social rented homes would reduce as a proportion of the total housing stock from 16% today to just 11% by 2045.

Loss of social rented homes: 2018/19

	Number of homes
New build social rent	6,000
Demolitions	-4,000
Affordable Rent conversions	-5,000
Right-to-buy sales	-15,000
Acquisitions	1,000
Total loss of social rented homes	-17,000

Source: AHC, MHCLG, Live Tables 678, 684, 1000 and 1009 and Regulator of Social Housing, Housing, Statistical Data Return

How can we make housing affordable again?

The Commission believes that to address the fundamental causes of the affordability crisis, and not just symptoms, the government should take concerted action to rebalance the housing system, in particular to shift the tenure mix much more towards social housing as well as affordable home ownership. This would make the housing system fairer and more efficient.

Reversing the tenure shift

It follows from the Commission's analysis that what is needed is a reversal of the switch from social housing to the PRS. Expansion of the PRS has taken it beyond the scale at which it can best meet local housing requirements. While it can work well for many young, mobile households – including students – the PRS has its limits. It should no longer be expected to provide for households for whom it is ill suited. It is not the solution for:

- lower-income households, where rents represent over 33% of take-home incomes;
- tenants in receipt of housing benefit that doesn't cover their rent sufficiently;
- families who need the stability of long-term security, on affordable terms; and
- older and vulnerable people, for whom there are special considerations for safety and support, as well as affordability.

This implies a smaller but better, more professional PRS.

For those in the bottom half of the income distribution the tenure shift has been dramatic: 20 years ago social rented housing provided 36% of homes for this half of the population and the PRS housed 12%. By 2017, social rented housing was down to 28% and the PRS had grown to 22%.

Tenure shifts among the bottom half of the income distribution (% of total households)

	Social housing	PRS	Home ownership
2000	36%	12%	51%
2017	28%	22%	51%
Change	-9%	10%	-1%

Source: AHC Measuring Affordability report;

Note: columns do not sum due to a rounding error

Increasing the supply of social housing

There is universal, cross party-political agreement on the need for an increased supply of homes that are affordable to those on average and below-average incomes. The continued lack of social housing will exacerbate affordability problems – in both urban and rural areas.

- We strongly endorse the imperative of providing at least 90,000 homes to let at the social rents, which we define as local income-related rents (LIRR): this requires social housing grants that mostly support developments with lower rental income than current Affordable Rent.
- Clearly these grants, which today typically cover only 15% of costs of building a new home, need to be at or above the levels pertaining a decade ago (around half the building costs).
- The Commission is concerned that, with falling support from grants, many social landlords have become over-reliant on selling new homes to cross-subsidise their affordable housing provision. With a drop in market sales, social housing numbers will decline unless grant levels are restored.
- This should be part of a wider public-private programme of affordable housing delivery, including shared ownership and intermediate rent, as well as a push to increase overall supply levels. Such a programme is estimated to cost in excess of £12 billion a year in capital grant, alongside the private new build which provides affordable housing through section 106 agreements.

The Commission recommends that the government seeks a step change in affordable housing supply in line with the latest assessments of housing need. On current best evidence, this would equate to an increase to about 90,000 social rented homes a year (forming part of the government's overall housing target of 300,000 homes a year).

The Commission recommends that in order to deliver the necessary increase in the supply of social homes, bearing in mind the necessary expense for improved safety measures and decarbonisation, the government must increase the level of capital investment in affordable housing to at least the level prevailing in 2010. Such investment brings additional economic and social benefits.

- The Commission recommends placing obligations on social landlords to ensure the affordability of the bulk of their new homes, using income data from local authorities and taking account of guidance from the Regulator of Social Housing on a revised, obligatory rent standard.

- Over half of the new homes for rent provided by social landlords come from planning requirements on housebuilders. The majority of these homes need to be let at social or local income-related rents.

- Permitted development rights for the conversion of office space into new housing are having negative consequences on housing standards and the delivery of affordable homes.

The Commission urges the government, in its forthcoming planning white paper, to focus on reforms to improve the supply of affordable homes. These should include: returning permitted development rights powers to councils, support for alternative approaches to capturing "hope value", and ensuring planning authorities are adequately resourced. The Commission also recommends government encourage local authorities to be resolute in requiring a level of affordable (and especially social rented) housing from section 106 agreements.

For rural areas, the Commission recommends that the government offer greater support to innovative affordable housing initiatives, including for community land trusts and small builders. Such support could include regulatory reforms and tax incentives to encourage land owners to assist with housing provision for local people, with housing remaining affordable in perpetuity. And, councils should be permitted to require some affordable housing for local people in rural schemes of less than 10 homes.

Councils building again

The Commission welcomes the return of many councils to building new homes, propelled by the relaxation of borrowing rules and new local housing companies (often using council-owned land). We see the prospect of councils contributing 20,000 extra homes a year. However, to ensure that the bulk of the new homes meet the priority need for affordability, rather than adding to supply at market levels, councils, like housing associations, will need adequate public funding.

The Commission was impressed by the evidence that spending on capital grants for social housing not only repays the investment with lower housing benefit costs but has significant additional economic and social benefits.

The Commission supports the government's encouragement to councils to build again at scale, directly and through local housing companies. Achieving that ambition will require increased resources for councils to deliver a high proportion of social housing in mixed-tenure developments.

Investing in new social housing has been shown to reduce the numbers in housing need by three times as much as an increase in private housing supply. There is also a strong economic case for delivering new social housing. It delivers additional housing to that provided by the market helping support the local workforce, businesses and productivity growth. Investing in social housing reduces the housing benefit bill, generates economic activity, creates jobs, raises tax revenues from construction and later in council tax receipts, and makes more productive use of land. These benefits deliver a net economic benefit even when accounting for upfront grant funding.

Utilising land and planning opportunities

Capturing the increase in land value that result from the granting of planning consent is a highly significant way of lowering costs of new development – including costs of keeping rents at affordable levels – without the necessity of more grant aid. The Commission was impressed by recent proposals for land to be acquired, if necessary, using CPO powers at no more than 10 times current use value. A local authority development corporation would be responsible for such developments, creating a master plan to allocate sites for a mixture of renting and owning, subsidised by capturing the value of the uplift in the value of the land.

The Commission's recommendations around development corporations and land value capture will help increase the mix of affordable homes in large new settlements. New approaches should be tried, such as tax increment financing and designated housing planning zones. This would also help increase levels of supply, which over the longer term will help improve affordability.

The Commission is also calling for more public land and infill sites to be made available. The main driver should be providing new affordable homes. Tighter regulations are needed to end the sale of public land for market housing at unaffordable prices.

To reduce high land costs and the excessive gains achievable from the receipt of planning consents, the Commission urges the government to press ahead with the Letwin review recommendations for acquisitions and land value capture through new development corporations established by councils. We recommend the definition of large sites as over 500 homes.

The Commission recommends that the preparation of local plans be made an enforceable statutory duty to ensure that all councils are delivering on their housing plans and targets. Local and city-region plans must be based on accurate housing needs assessment – including numbers of concealed households – which should be updated regularly.

Without greater support for social landlords and investment in land reclamation and construction skills, even a major house-building programme will struggle to reduce the backlog – now at over 1 million homes. An important contribution to this can come from bringing more empty properties back into use and scaling up the community-led housing sector.

Build to rent

The Commission sees the recent growth of investment in build-to-rent (BTR) developments, which draw in institutional investment and have demonstrated good standards of housing management, as good news. In contrast to the competitive purchase by other private landlords of existing properties, which has potential inflationary consequences, BTR increases supply. The size of its developments is likely to involve economies of scale and, indeed, to demonstrate innovations for the rented sector. While BTR rents are unlikely to be affordable to those on the lowest incomes, the extra provision generated by these new developers should ease pressure on the rest of the market.

The Commission welcomes the growth of build-to-rent homes and wishes to see the sector expand in order to provide additional affordable homes. The government should consider tax changes to remove barriers to growth, including ending the stamp duty surcharge for investors in build to rent.

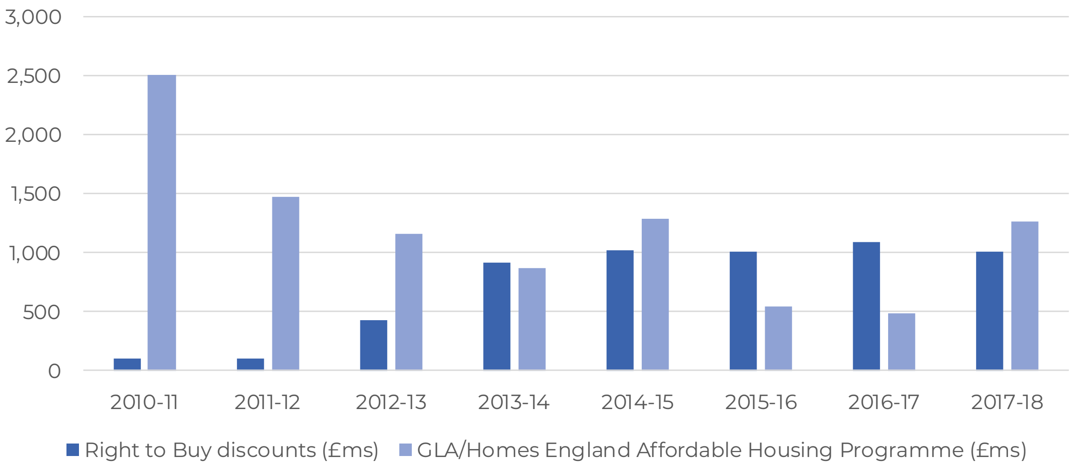
Second homes and short-term lettings

The Commission noted that many second homes were unused, and in some places, "buy to leave" properties are used for wealth storage and/or tax avoidance. It was reported that many councils lacked the resources or capacity to act, and that a tightening up of the legal definitions and provisions as to what constitutes an empty home for enforcement purposes was needed. The Commission also calls for the government to undertake a review of overseas property investment and the impact of online holiday lettings, such as Airbnb, on affordability.

Reforming right to buy

The right to buy remains popular, even among those most unlikely to benefit from it. But it makes little sense to press for the creation of a larger social rented housing sector when RTB subsidies to well-housed existing tenants continue to deplete the stock. The Commission also notes the successful ending of the RTB in Scotland and Wales, partly because of the subsequent transfer of these properties into the PRS with its higher rents.

Right to buy discounts versus the Homes England Affordable Housing Programme/GLA investment, England



Source: MHCLG, Live Table 682 and CIH 2019 UK Housing Review

The Commission therefore advocates that discretionary powers should be made available to local authorities to set the level of the RTB discount locally. In some areas a continuation of the RTB may be entirely sensible, but in others, councils would be right to diminish the incentives to buy. And to support replacement house building, HM Treasury should ensure 100% of receipts from sales are immediately recycled for new homes.

The Commission recognises that the Right to Buy remains a popular scheme. However, it is undermining efforts to address affordability, reducing numbers of relets at lower rents and moving properties from social renting to the PRS. Accordingly, the Commission recommends that the RTB is radically overhauled, including giving councils and housing associations discretion over the level of discount they offer, complete control over receipts and the opportunity to restrict any letting by a purchaser (e.g. requiring consent for letting the property).

If the voluntary RTB is extended to other areas, the Commission recommends that current requirements for one-for-one replacement should be tightened to include like-for-like replacement by tenure -properly funded by government support - so that sales do not result in a loss of social housing.

Transfer from private rented to social rented housing

In the 1960s and 1970s the growth of housing associations was propelled by the purchase of rented properties from private landlords. These were often portfolios of occupied street properties. The transfer from PRS to social rented housing provided security of tenure and “fair rents”. A return to this approach would require funding for social landlords to purchase (or, in respect of RTB properties, to re-purchase) from private landlords who are leaving the PRS. Already several London boroughs have started acquiring PRS property, mostly to avoid the problems and excessive cost of obtaining temporary accommodation.

The Commission also sees opportunities here for the purchase of low-value properties – very often houses in multiple occupation – that are unattractive to first-time buyers. These properties can fall into the hands of more unscrupulous landlords, who fail to upgrade the accommodation or provide an adequate service for tenants. Instead, purchase by social landlords – including community-based local organisations – can have beneficial impacts in regenerating whole neighbourhoods (as well as providing apprenticeships).

Transfers from the PRS to the social housing sector could be accelerated if government agreed to tax concessions for such sales: for example, exemption from Capital Gains Tax for sales to social landlords, or for sales where individual landlords use the proceeds to acquire annuities. This would encourage disposals by those using the PRS as a pension equivalent and enable landlords to leave the sector without getting into any financial difficulty.

The Commission calls on the government to support (through extra funding) the scaling up of schemes to enable social landlords to buy existing properties and empty homes for social renters, especially non-decent homes in the PRS. Such programmes can help improve housing conditions, bring the benefits of regeneration to an area for lower costs than demolish/rebuild models and can contribute to the revitalisation and levelling-up of areas outside of cities.

Rents for existing properties

Concentrating on future provision must not mean ignoring the severe affordability problem we already face. It will take time – perhaps a decade or more – to redress the imbalance of having too many properties available at rents that impoverish the less affluent, and too few properties at rents that meet our affordability criteria.

Weekly rent levels 2018-19

	Social rent (mean, PRP)	Lower-quartile market rents	Median market rents	Mean market rents
1 bedrooms	£81.93	£109.70	£142.03	£168.82
2 bedrooms	£93.50	£124.71	£155.89	£184.76
3 bedrooms	£103.08	£142.03	£175.52	£211.55
All	£95.12	£121.25	£160.51	£198.15

Sources: VOA, Private Rental Market Statistics April 2018 to March 2019 and Regulator of Social Housing, Statistical Data Return, 2019 Geographic Look-up tool

Too many tenants on benefit are struggling because of failings in the benefit system. The Commission therefore recommends accelerating reforms to universal credit to reduce the delay in the initial payment from five weeks to under two weeks; providing the option of weekly payments; and paying the housing benefit element directly to landlords by default option, with an option for tenants to receive the payment themselves if they so wish. The Commission also calls on the government to outlaw discrimination by landlords and letting agents against a tenant or prospective tenant because of their entitlement to benefit.

Rents for the social housing sector

Social landlords are not seeking to impose unaffordable rents. Many continue to struggle with greatly reduced public subsidy, and can only provide social rented housing from the profits they make selling homes. The Commission also recognises that costs are increasing owing to decarbonisation and building safety, and that any future rent settlement needs to be designed with the welfare system in mind as well.

We recognise the need for maintaining the current arrangements for increases to existing social rents – at CPI+1% a year – which aligns roughly with increases in earnings – until 2025. Thereafter, the government should work with the social housing sector, tenants and the Regulator for Social Housing to design a sustainable future rent settlement that takes into account affordability for tenants and the welfare system, while delivering long-term investment in existing and new homes.

We would like to see social landlords using greater rent freedoms to keep rents low and develop new rent models, such as London living rent. We also think employers could do more to ease housing stress.

Ending Affordable Rent

We have emphasised the problem of social rents being replaced by Affordable Rent – the latter being unaffordable in so many cases. While a household earning around the national living wage in social housing is paying around 25% of their income on rent, the figure is in excess of 40% for an Affordable Rent home. Not until their wage rate increases to £11.50 per hour will they be paying below a third of their net income.

Rent-to-income ratio for a two-person household (one working full-time and one part-time) paying average Affordable Rent and social rent

Sources: Social housing lettings in England, 2017/18: Continuous Recording (CORE) data; social rents are the mean for both local authority and registered providers. Benefit levels based on Policy and Practice benefit calculator.

The Commission recommends the ending of the Affordable Rent product. If transitional funding is available and where financially viable, social landlords which have built and converted homes to Affordable Rent should aim to return the homes to social rent or otherwise to intermediate rent, when tenancies end.

Rents for the private rented sector

At times of acute shortages, it may be necessary to constrain rent increases. But we would not advocate any across-the-board rent controls, since these seem highly likely to have adverse consequences. Rather, with the expected extension of tenants' security, parallel measures are needed to limit excessive rent rises. A fixed-period increase in line with inflation of earnings could be established for new tenancies, with rents reverting thereafter to the (higher or lower) market level for a similar further term.

The Commission recommends that new rent regulations be introduced alongside the legislation ending section 21 "no-fault" evictions. Annual rent increases would be limited to an index of income growth for a fixed period.

The Commission recommends that charging more than the permitted rent increase would be an offence, with the landlord facing a fine and having to return the excess rent to the tenant. Enforcement will be needed where the law is broken with proposed rent regulation by the First-tier Tribunal (or new housing courts if these are established).

In the meantime, while we understand government's frustration that housing benefit remains a major burden for the Exchequer, benefit cuts cannot be the source of savings in the short term. Housing benefit and the housing element of universal credit need to cover all the rent of those eligible for a full entitlement. For the PRS, this means permanently lifting the freeze on local housing allowances (LHA) and ensuring that a full 30% of PRS properties in any area can be accessed, when they come available, by those reliant on LHA payments. The Commission points out that an uprating would benefit tenants, reduce homelessness and provide significant savings to the Treasury.

The Commission welcomes the intention to end the local housing allowance (LHA) freeze but urges government to recalibrate LHA rates to the 30th percentile of local rented properties and recommends that in the future, uprating of LHA should be in-line with local rental prices and not general inflation rates.

The Commission believes that achieving affordable rentals means both setting rents for new homes (and working toward rents for existing homes) at around 33% or less of the incomes of households on average incomes or below.

It will take time in high-demand areas to achieve this outcome, and we recognise that the current basis for rent increases provides the necessary security for housing associations to borrow and to sustain their activities. But, over time, we would expect the sector's Regulator to require the boards of housing associations to review their rents periodically, to keep them in line with local incomes.

Affording housing quality

The Commission is concerned about the quality of the country's ageing housing stock, particularly for low-income households in the PRS and poorer older owner-occupiers. Social housing is in a better condition thanks to the Decent Homes programme, but new investment is necessary to make all homes safe and reduce carbon emissions. The Commission believes that everyone should live in a safe, decent home and urges the strongest possible action from government to tackle the multiple failures that caused the Grenfell Tower tragedy.

The Commission recommends that the government examines the case for a national mandatory professional standard of competency in the PRS. Private landlords would have to demonstrate their credibility and a professional standard of management on a similar basis to the regulation of letting agents. The Commission also recommends that a new national landlord register (run by councils but freely open to the public) be established to improve standards within the PRS.

The Commission welcomes the government's plans to review the Decent Homes Standard. A Decent Homes 2 fund should be established to help bring all social homes up to a Decent Homes Standard by 2025. This could include eco-standards necessary to help meet the UK's climate change targets and reduce fuel poverty.

Affordable home ownership

The Commission's research indicates that relatively small numbers of home owners are paying more than a third of their income on their housing costs. Cautious lending has meant relatively low levels of possessions. However, a serious economic downturn could change the picture. A substantial rise in unemployment and/or interest rates could place relatively large numbers of buyers in jeopardy.

Struggling home owners

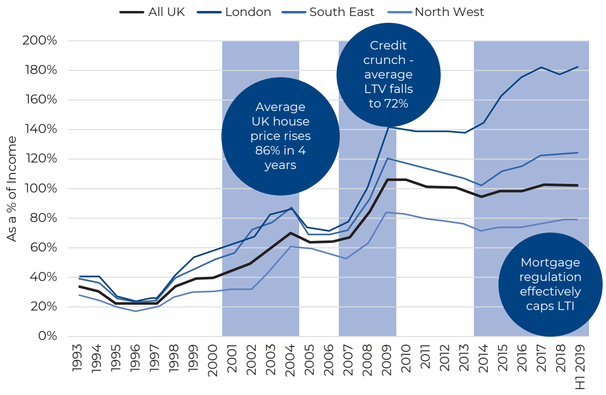
Some home owners struggle to pay their mortgage and need special assistance. Until recently they could access income support for mortgage interest (ISMI), which gave confidence to lenders and protected households from a – usually temporary – catastrophe. But this support has become markedly less helpful in several respects, including taking the form of a loan, not a benefit. This can compound, not solve, the household's affordability problem.

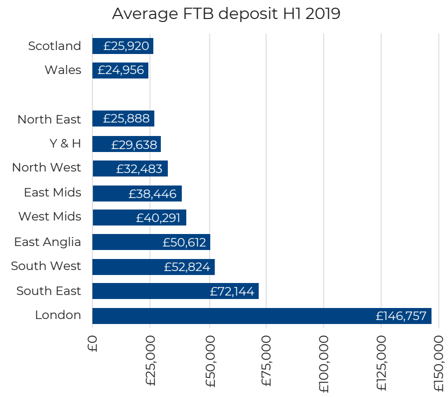
To prevent hardship and a fall in home ownership during an economic downturn, the Commission recommends restoring support for mortgage interest (SMI) as a benefit not a loan, reducing the waiting period, introducing regional caps, and linking payments to actual costs.

Frustrated home buyers

The Commission's analysis has highlighted the frustrations of those many renters – and people fed up with sharing or living at home – who want to become owners. They face the problems of either an income that is insufficient to satisfy mortgage lenders, or an inability to raise the necessary deposit, or both.

Average FTB deposit 2019





Source: Savills

Both problems would be eased if regulations governing lender behaviour were relaxed: current criteria for borrowing – such as the loan-to-income ratio and the size of the deposit – are stringent, not least for those already paying more in rent than the cost of purchasing.

However, the Commission recognises that relaxed lending rules for home ownership could be inflationary and, if there is another economic downturn, risky for borrowers as well as lenders. Indeed, this approach contributed significantly to the worldwide banking crisis. So, with a few borderline exceptions (e.g. for "mortgage prisoners" who cannot switch to a cheaper mortgage because of subsequent restrictions), it would seem prudent to remain cautious in considering relaxing the lending/borrowing rules.

The Commission believes that with government support, some tenants in the PRS could buy the homes they rent.

The government should consider offering targeted tax relief to private landlords who sell to their tenants, with incentives to sell occupied properties with sitting tenants if they are not in a position to buy but wish to stay. If landlords evict their tenants to sell or move back in, they should pay the tenants' relocation costs, to minimise hardship.

Levelling the mortgage market

Younger households in the PRS paying over a third of their incomes in rent struggle to save for a deposit. Many who are seeking to access home ownership also face competition from buy-to-let landlords (BTL). Since the introduction of BTL lending in the mid-1990s, the sector has grown to 1.9 million mortgages covering £240 billion of loans (with BTL properties with mortgages now representing around four in 10 households in the PRS). This has contributed to house price rises and squeezed out potential first-time buyers.

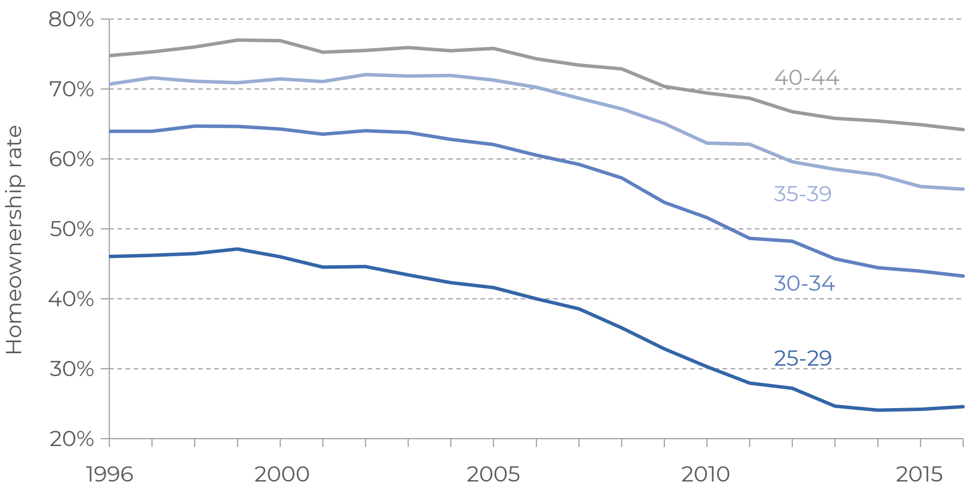
BTL landlords retain distinct advantages over first-time buyers. Although they are losing some of their tax advantages and face an extra stamp duty premium, they are still able to obtain interest-only mortgages – which are not available to owner-occupiers and can still offset interest payments for tax purposes. To take the next step in levelling the playing field for first-time buyers, without changes to existing lettings, the Commission would like to see the Regulator restricting interest-only mortgages to prevent landlords outbidding new buyers. This would not only help first-time buyers but also form part of macro-prudential policy to alleviate the amplification of housing cycles and improve financial stability.

The Commission recommends that the government gives the Bank of England's Financial Policy Committee additional powers to limit the use of interest-only buy-to-let mortgages. This would create more of a level playing field between owner occupiers and buy-to-let landlords.

Shared ownership and rent to buy

Home ownership among young adults has fallen since the early 2000s. In the long term, alongside measures to rebalance the housing system, the Commission also believes an increase in overall housing supply will be needed, including mixed-tenure new settlements. In the meantime, greater affordability – mostly for mid-income households – can be created by initiatives of different kinds, such as rent-to-buy and shared ownership.

Home ownership for those aged 25-44, by five-year age band



Source: Cribb, J et al, The Decline of Homeownership Among Young Adults (2018)

Social landlords are developing new shared ownership products, but in many high-value areas tenants can no longer afford the qualifying income or deposit. There are also onerous obligations on occupiers, including sometimes costly fees on acquiring further equity shares and on repairs and maintenance. The Commission is unconvinced that imposing a national shared ownership scheme will make a difference and sees the benefit of protecting shared ownership housing stock.

The Commission supports the scaling-up of shared ownership products and believes more can be done to improve and simplify the deal for shared owners. The Commission sees little value in encouraging the sale of shared ownership homes on the open market. The Commission feels it is important that shared ownership homes are retained as affordable housing when being resold. There is little evidence to support the need for significant changes to the pre-emption clause, which allows landlords to ensure that homes are offered to qualifying households, and would not wish to see significant changes to this "right of first refusal".

Help to Buy and First Homes

Help to Buy successfully incentivised volume housebuilders' to increase production to counteract the impact of the financial crisis. But it has been less successful in reaching those struggling renters who don't have access to the "bank of mum and dad".

We welcome the government's intentions to better target equity loans so that support goes just to first-time buyers, with regional caps on purchase prices, from

2021. The Commission would like to see the scheme extended to those buying an existing property as their first home, again with the funding concentrated on those in the lower half of the earnings distribution.

The government is consulting on its "First Homes" programme where properties are sold and re-sold to first-time buyers in perpetuity, at most at 70% of market value. The homes would be provided using current planning requirements on housebuilders (through section 106 agreements). The Commission sees some merit in this scheme, which could take the place of other discounted home ownership and shared ownership schemes. But, equally, the Commission would be alarmed if First Homes displaced the essential homes for social rent which represent the highest priority of the Commission.

The Commission welcomes the proposed reforms of the Help to Buy Equity Loan scheme and recommends it should include support for those buying homes in the existing market – but should be limited to lower income first-time buyers

The Commission recognises government plans to address affordability problems facing first time buyers through the First Homes proposal using section 106 agreements on house builders. The Commission believes such housing should not come at the expense of reduced obligations on housebuilders to provide social housing and other successful affordable home ownership products. Government should also ensure that the new scheme does not override local planning authorities' objective and evidence-based housing needs assessments.

Housing for older people on low incomes

A significant downside of the growth in the PRS can be expected as a result of the increase in private tenants aged 35-44 who have missed the opportunity to buy. This cohort will reach retirement age in 20-30 years and their income will move from earnings to pensions. Since so many are spending disproportionately more on their rent, when their incomes are substantially reduced the already problematic rents will become quite unsustainable.

Future crisis for Generation Rent

Parliament's all-party group on Housing & Care for Older People forecasts another 1.5 million households over pension age in the PRS in about 25 years from now. Of these, it is estimated that 630,000 will have to move out of their homes – or government will have to increase housing benefit payments very substantially.

To head off this future crisis for PRS tenants, the current window of opportunity could be used to build more homes for later life. Delivering affordable housing specifically for older people has special value: those who downsize from family properties release much-needed housing for the next generation. A 21st-century version of the extensive sheltered housing programme of times past would achieve "two for one": both releasing under-occupied properties, not least council houses for families at modest rents, and creating more suitable, accessible, energy-efficient, affordable homes for older people. It will also tackle problems of fuel poverty and loneliness for older people.

Unaffordable repairs

For many older home owners the housing issue does not relate to mortgage payments but to their inability to pay for home improvements or a move to more suitable accommodation. Here we see the possibilities for equity release schemes that can generate the capital required for home improvements or bridge a gap for those downsizing to a new home. Difficulties in accessing relatively small sums can deter elderly owners from using their assets to achieve better, warmer homes. We commend the initiative of lenders committed to providing suitable equity release products of this kind, sometimes alongside Disabled Facilities Grant.

The Commission recommends the government takes forward the proposals from the APPG on Housing and Care for Older People, especially concerning greater support for affordable purpose built homes and extra care housing, better advice, incentives to downsize, and improved design standards; and consults with councils on setting targets in local plans to provide more and better housing for older people.

The Commission recommends that public and private investment in improving the housing stock of older home owners should be increased and targeted on those who cannot afford to undertake the work themselves.

Affordable housing for all

Making housing affordable again must be a national priority. The Commission concludes that a rebalancing of the nation's housing system is desperately needed: to create substantially more affordable homes for those on below-average incomes; to help those who are priced out of home ownership; and to provide safe and decent homes for all age groups.

Rebalancing the housing system will require a sustained effort and coalition of the willing. The Commission has suggested a new definition and measures of affordability. We now need government to establish clear targets and a national housing strategy, which can take forward the interventions and ideas suggested by the Commission and others.

There are no quick fixes and solutions must be joined up with maximum local discretion – councils and metro mayors, for instance, should have the powers and resources they need to provide affordable homes for local people. The Commission is also calling for a stronger tenant voice and a recognition of renter unions.

A lot more funding – and more capital grant to social landlords – will be necessary. Investment in new social housing will need to return to at least 2010 levels. But, as the Commission shows, that step change in public housing investment will produce long-term net savings and wider economic benefits.

The Commission's research and recommendations highlight the benefits of a new agenda to tackle housing unaffordability. It offers a considered package of connected reforms based on the evidence and views of housing providers, lenders, land and property owners, decision makers, and most importantly, ordinary households and people suffering housing stress. The Commission believes change is possible and that we can work together to ensure access to affordable housing opportunities for all.

This Summary covers the report's principle findings and recommendations. A full list of the recommendations is included in the report's final section.

Introduction

The report is divided into themed sections, with the recommendations included in each section and detailed explanations and references in the appendix.

- Part One covers why housing is unaffordable and includes an analysis of the problem as well as feedback from public opinion polling and focus groups.
- Part Two looks at the costs and consequences of housing stress and at how unaffordability is defined.
- Part Three sets out alternative measures of affordability, and identifies who is most affected.
- Part Four explains the way the housing system has changed, the tenure shift towards the PRS and the need for rebalancing
- Part Five makes the case for affordability to be a national priority and discusses future housing need and tenant voice.
- Part Six presents the case for social housing and considers the funding situation, student housing and overseas property investment.
- Part Seven looks at land and planning issues, including capturing “hope value”, permitted development rights, planning gain, and the First Homes proposal.
- Part Eight highlights the return of council building, community-led housing and affordability in rural areas.
- Part Nine focuses on ways to ease housing stress, such as buying properties for social rent, empty homes, build to rent and reform of the right to buy.
- Part Ten proposes how to make rent affordable, including a detailed discussion of rent regulation and rent stabilisation.
- Part Eleven places the spotlight on affording housing quality and what needs to be done to make housing safe and decent.
- Part Twelve discusses housing welfare and affordability, including changes to the local housing allowance and universal credit.
- Part Thirteen covers struggling older renters and the need for decent housing in retirement.
- Part Fourteen looks at frustrated first-time buyers and the role of mortgage regulation, unaffordable deposits, Help to Buy, shared ownership and other affordable rent models.
- Part Fifteen places the spotlight on struggling home owners and the support they receive.

- Part Sixteen examines housing delivery and meeting affordability targets, as well as comment on property taxes, devo housing and the state of the construction industry.
- Part Seventeen includes a conclusion and a full list of the Commission's recommendations.

PART ONE

Why is housing unaffordable?

Unaffordable housing is now a prominent feature of the housing system, affecting all tenures and all parts of England. It is at the heart of the wider housing crisis, which encompasses a growing list of related concerns and drivers – such as demographic trends, economic geography and social disparities – and place-making issues, such as transport connections, liveability, design and the quality of the public realm.

The Commission is aware of how all these demand and supply issues overlap, with housing affordability also shaped by the political landscape, macro economy, state of the public finances, and public attitudes. Housing unaffordability itself also has multiple components, involving personal circumstances and preferences, attitudes and stigma, as well as a range of relationships: between landlords and tenants, lenders and home owners, housing providers and funders, house builders and planners.

The interrelationship between market housing and public housing and broader market dynamics – around the buying and selling of land and property (including housing as an investment for home owners), development and construction, and the capacity to build. All these will need to be carefully considered by decision makers, not least given how much the housing market itself is influenced by government and public agencies (which becomes more pronounced in an economic downturn).

There are also trade-offs and timelines that must be factored into any policy change. Investing in social rented homes at scale, for instance, will involve a large upfront capital costs and some possible displacement away from private housing, but over time will help to rebalance the housing system and provide welfare savings and societal benefits.[1] Similarly, decarbonisation of the housing sector – which is essential – will entail significant upfront costs and place pressure on rent, but over time offers lasting longer-term benefits.

Population growth will add huge pressure on the housing stock and create even more demand for suitable, affordable homes. England's population is projected to rise by 3 million by 2031, with the total reaching over 60 million the following year (a larger proportion of which will be older people).[2] How higher population levels translates into household formation and growth (excluding concealed households) will depend on how many homes are built. As discussed later in the report, the evidence suggests that housing provision is currently nowhere near sufficient to meet household growth (including concealed households) and tackle the existing backlog – estimated at 1.2 million homes.[3]

However, as this report shows, one the most significant drivers of change has been the inter-relationship between housing types and tenures, especially between private renting and social renting. These changes in tenure have been encouraged by a policy switch from investing in bricks and mortar (capital grants that kept rents down for all tenants in social housing) to revenue support for individual tenants on low incomes. The big housing costs in Whitehall have meanwhile switched from the housing budget at the Ministry of Housing, Communities & Local Government (MHCLG) to the welfare budgets at the Department of Work & Pensions (DWP).

Public opinion

The evidence and arguments surrounding the causes of housing unaffordability in England are complex and often contested. Views are sometimes entrenched and "bedevilled by rival simplifications".[4] However, outside of academic circles, housing stress has become more of a worry for the public. According to Ipsos MORI, together with poverty and inequality, concern around housing has more than doubled since 2010. The CIH/Ipsos Mori survey in 2019 showed that 73% of those polled believe there is a housing crisis in Britain and most people (57%) think that the rising cost of housing will affect them personally in the next five years (72% among renters).[5]

The Commission's polling (see below) reached similar findings and its focus group workshops highlighted other important public opinions, such as strong local support for affordable local housing.

What is affordable housing?

The Commission's national opinion polling with YouGov in October 2018 – covering 1,499 adults – showed that:

- Two-thirds of people (64%) believed there was a national crisis over affordable housing and over half (52%) believed it would get worse over the next decade.
- Nearly half of adults with housing costs (47%) have experienced financial difficulties over the past year as a result of housing costs.
- A quarter of adults (23%) couldn't last more than a month without borrowing to pay their housing costs if they or their partner lost their job.
- Seven in 10 private renters (68%) say they would need to win the lottery to be able to afford to buy a home; 39% of renters say they would need a relative to die and leave them an inheritance in order for them to be able to buy a home.
- The Commission's focus group fieldwork in North Birmingham – selected to

match median house price and tenure split – was conducted in December 2018. The headline responses were:

- Spending 33% or less of your income on housing cost was seen as “affordable” in our focus groups. However, the concept of establishing a “decent” standard of living is problematic, owing to perceptions about other people’s lifestyle choices. For struggling renters, just getting by is the priority.
- All groups default to interpreting “affordable housing” as being about first-time buyers (FTBs) rather than renters. However, it is clear that the real personal impact of an affordable housing crisis on FTBs and struggling renters is excessive rent levels in the PRS.
- All groups see saving for a deposit as the major barrier to buying a property, as they believe mortgage payments will usually be lower than rent levels. There is anxiety that saving for a deposit for up to five years will mean a level of sacrifice that is unsustainable.
- Owing to the personal impacts they are suffering, FTBs and struggling renters both view “the system” as so fundamentally broken that they are open to radical solutions to the lack of affordable housing.

New development can prove highly controversial, especially on greenfield sites or on estates where tenants are decanted. Feedback from the Commission’s focus groups suggested local opposition is stronger where there is little or no affordable housing. Polling by the CIH also found relatively higher levels of support for the building of new affordable homes.[6]

The Commission’s polling clearly showed a strong desire for prioritising affordable homes for local people. The focus groups in Birmingham, for example, said that “first dibs” means the system is fair and that local residents were naturally annoyed if they see new housing at the end of their street which they can’t afford. It was also said that the new developments – which locals can’t afford – are also often closer to transport hubs, which make it easier for newcomers.

Why can’t we have the housing we want?

The Commission’s focus group fieldwork in North Birmingham, February 2019, sought to get a deeper understanding as to why people are unable to achieve their housing goals. The groups were concerned about high deposit requirements, a congested and expensive PRS, and shortages of social housing for low-income working households. All the groups seemed open to radical solutions.

A widely held view was that any solutions must recognise the strong desire for local housing choices, especially among young families. A typical response was:

"For me, my life, everything is in Sutton. When you have kids, all my family are here for support, my work is here, my whole life is here."

First-time buyers and struggling renters are far less financially resilient than home owners, and as a result are less able to navigate difficult life events such as a relationship breakdown or a significant change to their employment.

"I was really stupid. I moved in with my girlfriend, we argued about money all the time. I had to pay more than her because she wasn't earning as much. In the end I moved out with nothing. I should have listened to my mum and dad."

"The area was rough. I didn't feel safe. It was a tough year being there. Me and my partner split up. We tried to live in a three-bed house after we split but it was a disaster. I was only 19."

There was a commonly shared view that the cost of living, including housing costs, had been rapidly increasing for the last decade, whereas incomes have remained stagnant and employment often seems less secure.

"It's austerity. We didn't have a pay increase for five years. House prices have always gone up."

"In 2009 when the recession hit, I was working at LDV. I lost my job and had to sell – and that forced me down the rental route."

"I have a 15-year-old daughter. Missus lost her job from the council. Two kids and your bills, it's impossible. You get to a point when you think you're doing well and something crops up."

Participants wanted housing solutions to be hyper-local: in close proximity to the family networks on whom they rely for support (especially informal childcare), with good transport links to their jobs and access to good schools. They are extremely reluctant to move to areas where new, perhaps more affordable housing has been built, even to areas relatively nearby.

"They aren't building houses in the right areas. In Great Barr, where I am, there are new-build. The estate is beautiful, but they are just too expensive. And then the other side of it is that the houses can be nice, but they are just in the wrong areas and you don't feel safe."

Struggling renters are increasingly resigned to their children living with them into their 30s owing to low wages and high housing costs. They have given up on improving their own housing situation and hope that with their support their children will eventually do better than they have and eventually get onto the property ladder.

"The children won't move out and they cost me a lot of money. I tried to chuck my kids out and they won't go; now I'm a grandmother and I have additional kids in the house. My children are not independent. That's why I can't save, I never have any money."

First-time buyers are incredibly frustrated with deposit requirements from lenders. They also believe they are offered higher interest rates than older people because of their relatively low wages and poorer job security. They are desperate to buy their first property and feel they are forced to make compromises on their quality of life in order to achieve their housing goals.

"Me and my partner are teachers but he's a supply, not in permanent employment, so he can't get a mortgage, it has to go through me, and that's a strain. We both have good jobs, he gets work every day but it's not permanent. We are both on a good wage but it's not enough."

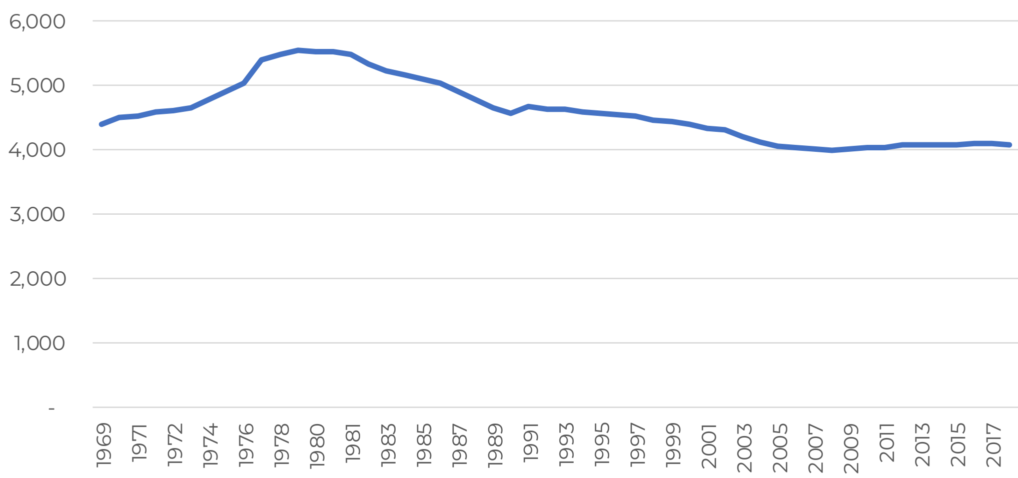
"I'm in a stable job, my partner was made redundant six years ago and since then he has been working but on short contracts, not permanent – I could get a mortgage on my own but not for a property with a family of four."

The decline of social housing

The lack of social housing lies at the heart of the country's affordability problems. This was a consistent view in the evidence to the Commission and is clear in various assessments of housing need.[7] This is not a new phenomenon. Successive governments have consistently failed to help build enough social housing, and policy interventions have at times actively sought to reduce the number of existing social rented properties.

Where people would have once been able to access social housing they now have to rent privately. Nationally market rents far exceed social rents,[8] pushing more households beyond the Commission's affordability threshold. The pattern of decline is apparent in the data, with an absolute decline in the number of properties owned by social landlords – down from 5.5 million in the late 1970s to 4.1 million properties today.[9]

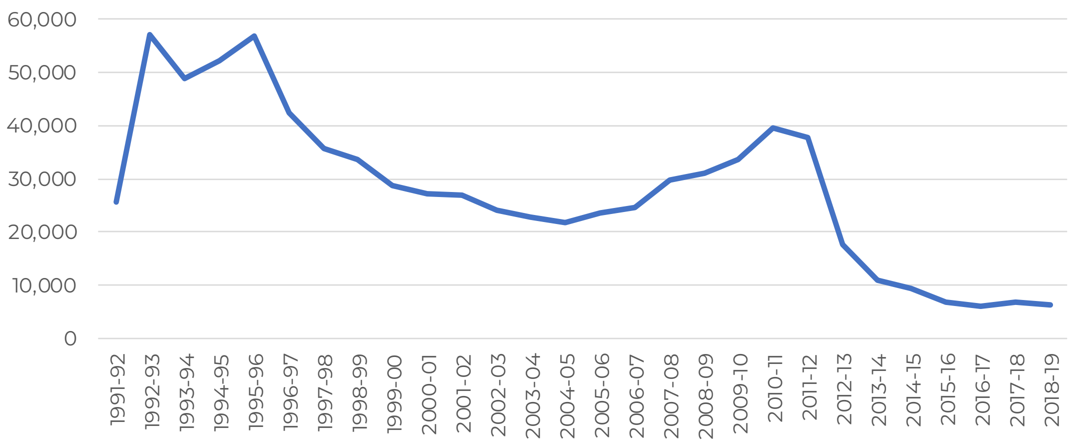
Social housing stock (1,000s)



Source: MHCLG Live Table 104

The decline in new social house building since the early 1990s has widened the gap between supply and demand. Housing needs assessments for England suggest a build rate of around 80,000-90,000 new social rented homes a year.[10] As shown below, the current output (of grant-funded social rented homes) is well below that.

New social rented housing, England

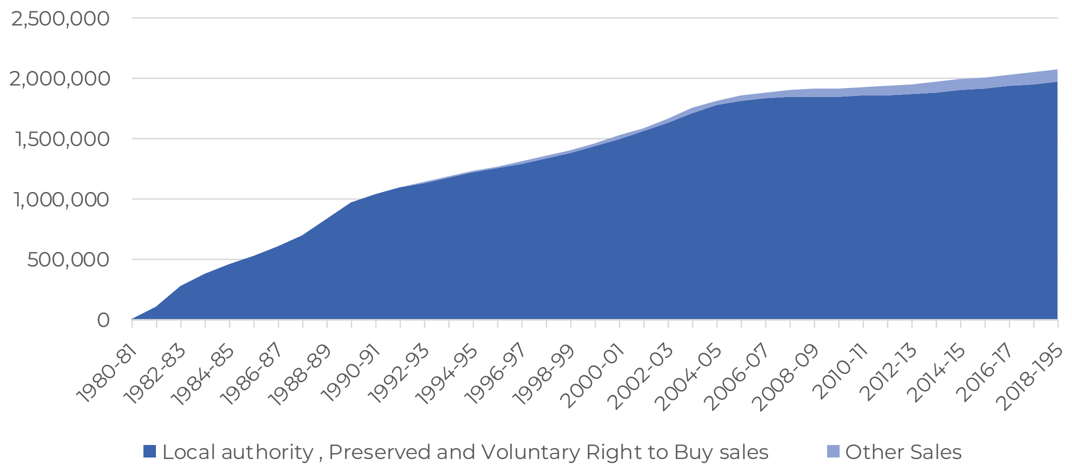


Source: MHCLG, Live Table 1000

Loss of stock and housing grant

This persistent undersupply of affordable housing has been worsened by the continued loss of social rented stock. Despite promises that there would be one-for-one replacement of homes sold, the impact of right to buy (RTB) has been to diminish the stock of social housing. Even though RTB sales have fallen, from a peak of 167,000 in 1982/83 to 16,000 in 2017/18,[11] analysis by the National Audit Office and Parliament's Public Accounts Committee found that the number of replacements has failed to meet the loss.[12] Overall, nearly 2 million homes have been lost through the RTB.

Cumulative social housing sales



Source: MHCLG Live Table 678

The loss of genuinely affordable housing unfortunately outpaces the supply of new affordable homes. This is a major worry and an important factor in the tenure shift towards the PRS. The table below illustrates the imbalance, with the loss of stock through RTB and Affordable Rent in one year at four times the rate of new build.

Loss of stock compared with new social housing 2017-18

Right-to-buy sales of social rented housing	17,099
New-build Affordable Rent	9,556
New-build social rented housing	6,434

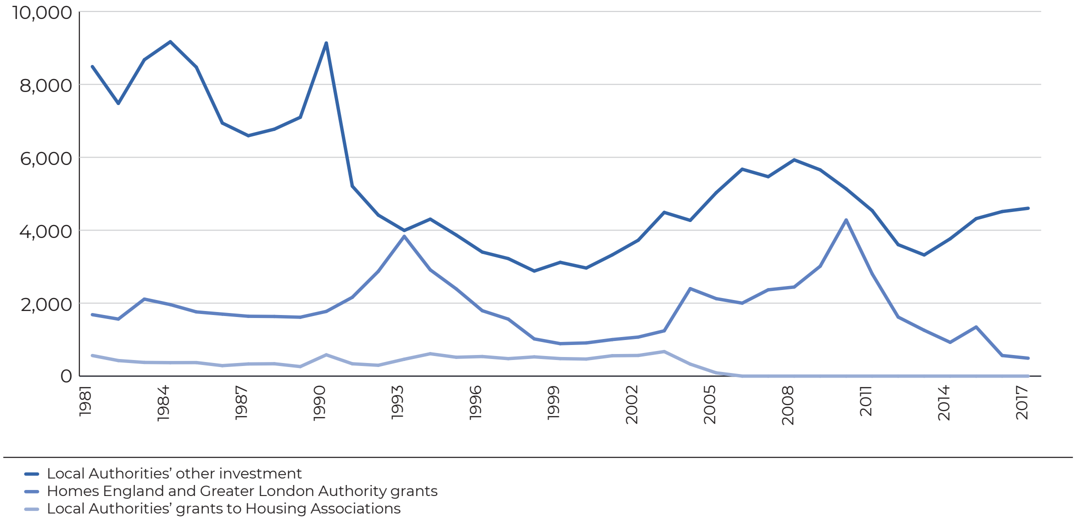
Source: MHCLG, Live Table 1000c; HCA, Statistical Data Return, Table 50; MHCLG, Live Table 678

The loss of social rented stock has been compounded by conversions to Affordable Rent – a rent model introduced in 2010 allowing housing associations to offer tenancies at rents of up to 80% of market rent levels within the local area (around 60% in London). Data from Homes England shows that between 2012-2018 some 112,000 homes have been converted from social rent to Affordable Rent, although the figure has fallen from its 2014 peak.

The story of Affordable Rent – discussed further in the section on "Addressing affordability directly" – reveals the shift away from funding social rent to government support for a wider range of intermediate housing products. Government affordable housing programmes, for instance, have recently been split between social rent, Affordable Rent, intermediate rent and low-cost home ownership products. The impact is that tenancies let at Affordable Rent are estimated by the CIH to have reached 237,000 in 2017/18, with Affordable Rent lettings making up about a quarter of total general lettings by housing associations; and 2% of total lettings by councils.[13] Overall, new social rented housing as a proportion of new affordable housing stock has declined from 87% in 1991/92 to just 11% today.[14] And overall government funding in housing still favours the private market. As the CIH notes, "the balance of government investment still heavily favours intervention in the private market, with support for affordable housing forming just 21% of the total investment over the 2018/19-2022/23 period."[15]

This has happened at the same time as funding for social housing has declined – detailed later in the section on "The case for social housing". According to Shelter, social housing grant funding over the last five years is less than half the level of the early 1980s, and a third lower than in the first five years of the 1990s.[16] Shelter's housing commission argue that the effect of the reduction in grant funding, alongside the transfer of grant from new social housing into shared ownership and other affordable products means that "the delivery of genuinely affordable homes has been compromised in favour of a thin spread of grant across more expensive homes".

Publicly funded social housing gross capital investment in England (£ billion, 2017/18 prices)

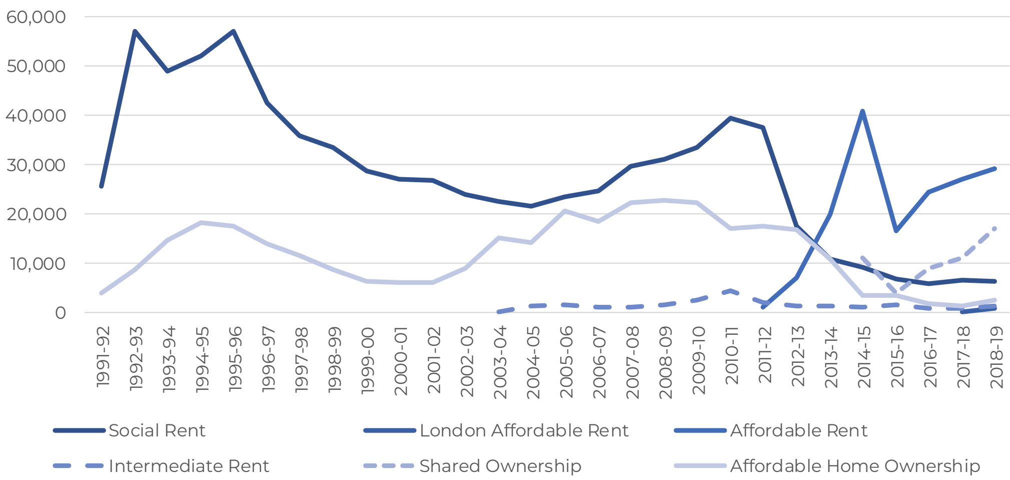


Source: Shelter Building for Our Future: A Vision for Social Housing, Chapter 3 "The Rise and Decline of Social Housing", Fig 21, page 97[17]

Evidence from the sector suggests that social landlords who wish to provide a range of affordable housing products have little option but to rely on private finance and cross-subsidy from market sales.[18]

Specific issues of the affordability of the affordable housing sector also extend to social rents themselves. Over the longer term, social rents have increased, despite the compulsory rent reductions from 2015/16 to 2019/20,[19] with rents outstripping income growth since the 1990s.[20]

Trends in the supply of affordable housing completions by tenure, England, 1991-92 to 2017-18



Source: MHCLG, Live Table 1000

The rise of the private rented sector

The result of the decline of social housing has been a tenure shift away from social housing, with more households (notably more low-income households) living in the PRS – where rents in general are higher. This is explained in more detail in the section on "Rebalancing the Housing System".

According to the recent Rugg Review on the PRS, households in the bottom third of incomes across all tenures make up 38% of the sector.[21] A growing proportion of these households are families with children.[22]

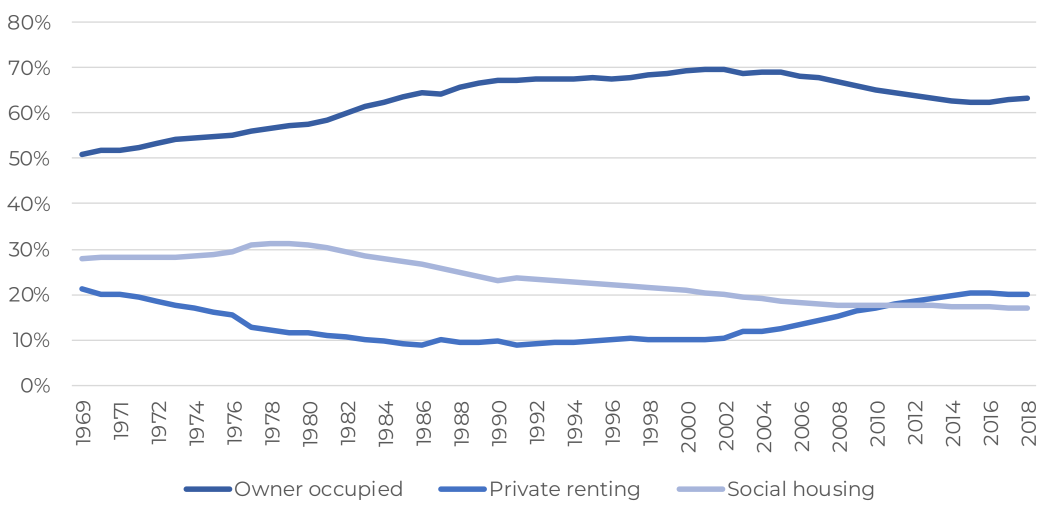
Weekly rent levels

	Social rent	Lower quartile market rents	Median market rents
1 bedrooms	£81.93	£109.70	£142.03
2 bedrooms	£93.50	£124.71	£155.89
3 bedrooms	£103.08	£142.03	£175.52
All	£95.12	£121.25	£160.51

Sources: VOA, Private Rental Market Statistics April 2018 to March 2019 and Regulator of Social Housing, Statistical Data Return, 2019 Geographic Look-up tool

As the graph below highlights, social housing has almost halved as a proportion of the stock, from around 30% in the late 1970s to under to 17% in 2017. Over the same period home ownership rose, then declined, while the PRS has been increasing since the early 2000s.

Housing stock by tenure, England



Source: MHCLG Live Table 104

In the bottom half of the income distribution, tenure movements have been most marked from social housing to the PRS.

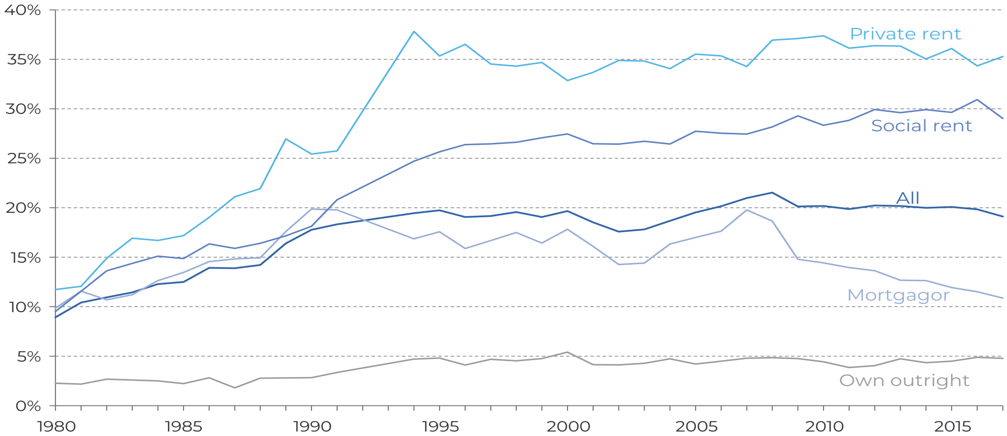
Tenure shifts in the bottom half of the income distribution

	Social housing	PRS	Home ownership
2000	36%	12%	51%
2017	28%	22%	51%
Change	-9%	10%	-1%

Source: AHC Measuring Affordability report. Note: columns do not sum due to a rounding error

As demand increased, so did the cost of renting, especially for private renting over the period 1980-2000. As the graph below shows, all housing costs as a share of income have risen over time, but far less so for home owners. In a low-interest rate climate this gap between the housing haves and have nots has continued to widen.

Average housing cost-to-income ratio by tenure, working-age family units, gross of housing benefit: UK, 1980-2017



Source: Tomlinson, D Inequality Street: Housing and the 2019 general election (Resolution Foundation, 2019)

Inadequate supply

The lack of all types of housing supply has resulted in prices rising faster than incomes, with adverse consequences for the macro-economy and affordability.[23] As the seminal Barker Review of Housing Supply concluded:

"The costs of constraining supply include higher house prices and a lack of market affordability ... Long-term trends in house prices mean that for many people housing is becoming less affordable over time, while the periods of sharply rising prices push owner-occupied housing out of reach for many more. Individuals' choices about where to live become unduly constrained, which can have a negative impact on their quality of life, for example, leading to overcrowding, longer commuting times and affecting family structures and friendship networks."[24]

Detailed modelling has highlighted how undersupply has contributed to higher prices. A report for DCLG in 2010 by Hilber and Vermeulen, looking at data from 353 local planning authorities in England (1974-2008), found that supply constraints (in particular the supply of land) explained high house prices, especially in high-demand areas. They concluded that without reform, "future housing (affordability) crises will be increasingly severe".[25] Modelling by Geoff Meen has also found that shifts in supply would help bring prices down and "in contrast to demand shocks, where changes to affordability can be large, but temporary" shifts in supply lead to "permanent changes to affordability".[26] These finding have been echoed in other modelling, which has shown that increased supply over the longer term would have reduced house prices.[27]

Some have argued that rent-to-income ratios have remained fairly static in recent years, indicating no undersupply of housing.[28] However, the evidence over a longer period does point to rising costs. More importantly, perhaps, the issue facing households is not the rise but the level they are paying now, which for many is far too high. As evidence suggests and referred to in the report, if housebuilding was closer to other developed countries then prices would now be lower. This is not to deny the importance of demand-side factors, which are addressed in the report, but to acknowledge that failure to build at an adequate scale has negatively impacted housing affordability.

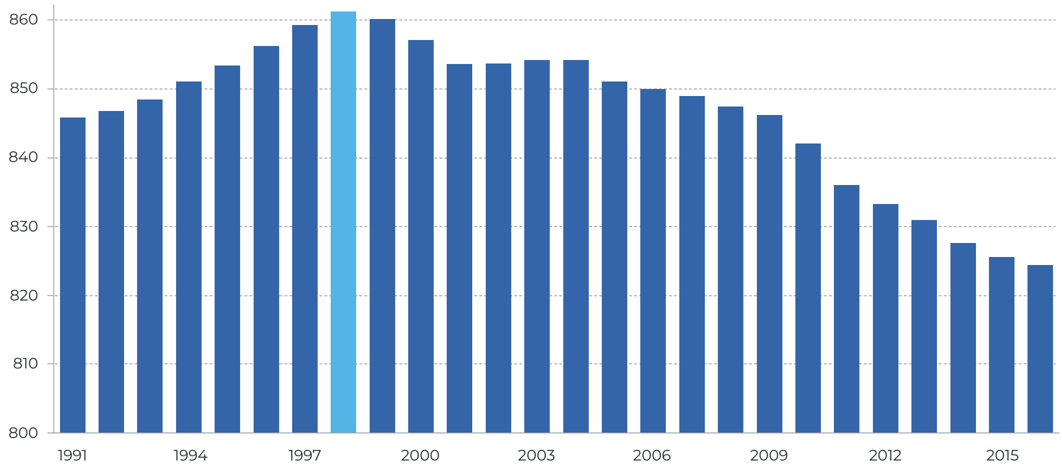
Whether increasing supply is the right approach to improving affordability depends on whether there are identifiable shortages – nationally and locally. New housing schemes are often controversial, so providing the evidence to show that more homes (and more affordable homes) are needed is crucial – as discussed later in the report in the section on "Housing Delivery". However, undersupply can be seen in rising levels of concealed households and suppressed household formation[29] – which has become a particular problem among young people in urban areas.

Hidden homelessness

Hidden homelessness has increased from 1 million people in 1996 to over 2.5 million today, outpacing the rate of household growth.[30] Labour Force Survey data shows that between 2003 and 2017 the number of 20- to 34-year-olds living with their parents increased from 2.4 million to 3.4 million.[31] The problem is worse in London. A survey by the London Assembly reported that 43% of the hidden homeless and people living in hostels and temporary accommodation in London had affordability problems.[32] Crisis estimates that there are 3.74 million concealed households who would prefer to live separately.[33] Evidence to the AHC also suggests that hidden homelessness is increasing outside of London, in cities, such as Manchester and Bristol.

Analysis by the Resolution Foundation suggests that there is a gap of 170 homes per thousand families. The data suggests that the gap is now wider than at any point covered in the data (since 1991) and we would have needed to have built 1 million additional homes to have kept the ratio of homes to families at 1998 levels.[34]

Ratio of housing stock to families, 1991-2016, England



Source: Resolution Foundation, The one million missing homes? (2019)

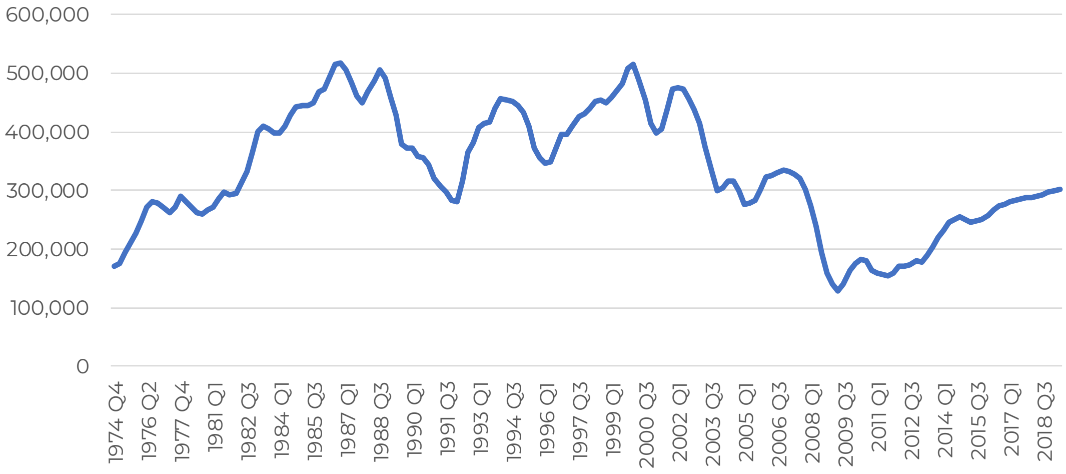
This is not to say that there are not problems with the distribution of housing and that measures to curtail overconsumption of housing may not be an important intervention. It is also worth noting that increasing the supply of new market housing will also be an important component of increasing investment in new social housing through section 106 planning agreements. Without that additional revenue, building the extra social homes required to meet housing need and address affordability problems is likely to prove more expensive in terms of increased central government grant funding – see later section on "Financing Affordable Housing".

Accessing home ownership

Not all problems with housing can be solved with additional new supply. Even when rents are cheaper, if incomes are very low then meeting housing costs will be a struggle – and especially so for those reliant on benefits that have been capped. Equally, recent history around mortgage credit highlights the difficulty potential first-time buyers (FTBs) face in placing their first foot on the housing ladder.

An important component of housing affordability is accessing home ownership. It was the issue most people mentioned when discussing housing affordability in the Commission's focus groups. Despite the barriers facing FTBs, home ownership remains the tenure of choice for most people. However, FTB levels have fallen over the past 20 years. The number of FTB mortgages since the financial crash has increased but remains well below past peaks in the 1980s and 1990s (and significantly below trend rates in the two previous economic cycles).

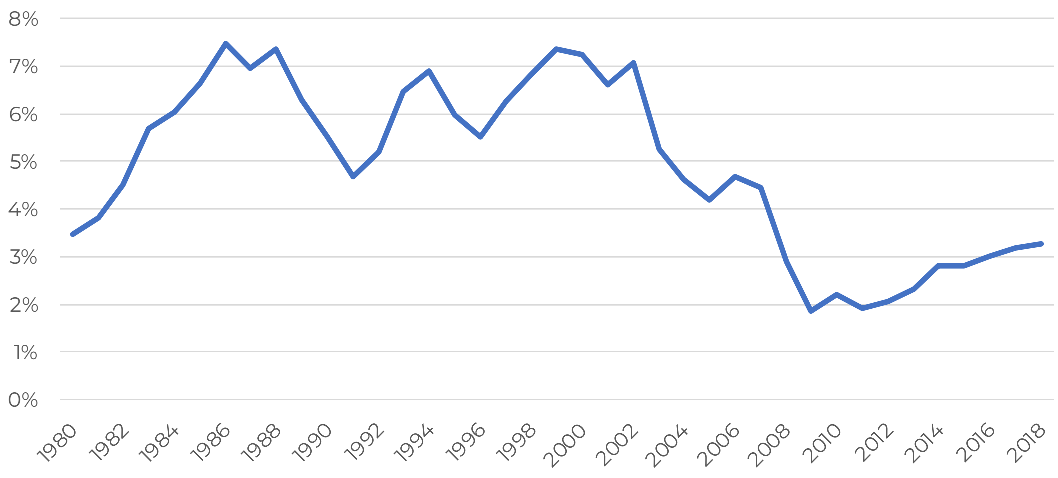
Number of mortgages to first-time buyers in England – Annual rolling total



Source: MHCLG, Open Data

The proportion of FTBs compared with renting households shows a similar trajectory, falling sharply since 2000 but with some pick-up in recent years – although still much less than in the 1990s.

First-time buyer mortgages as a proportion of renting households



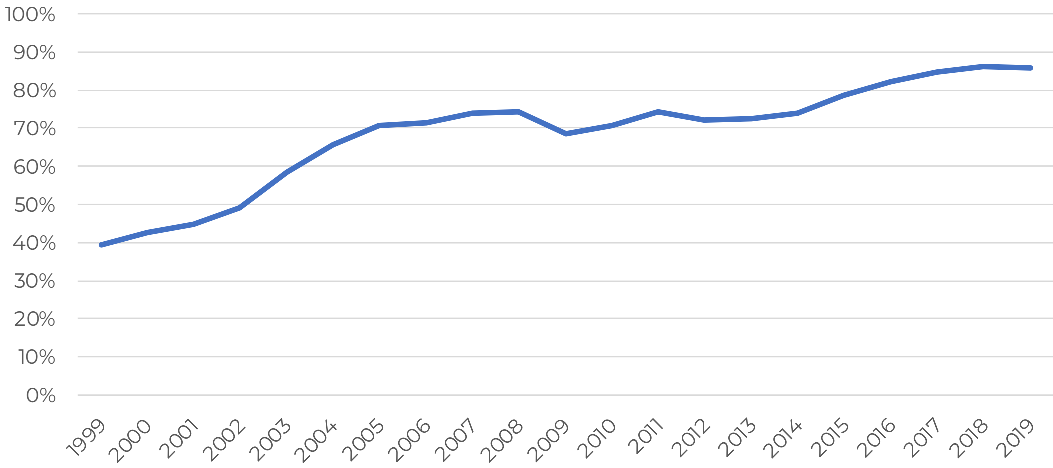
Source: AHC analysis of MHCLG, Open Data and Live Tables

Interest rates and house prices

Low interest rates have meant lower mortgage costs and improved affordability for existing home owners. However, they have also fed into higher house prices.[35] And, for FTBs, this has had a negative impact on affordability. Higher house prices and higher loan-to-value requirements since the financial crisis has meant larger deposits are needed, effectively pricing many potential FTBs out of buying.

As house prices have risen the levels of saving required to put down a 10% deposit have sharply increased. This can be observed in the graph below, which tracks the differences between younger people's wages and house prices. While in 1999, a younger person on median earnings would need to save 40% of their gross annual pay to raise a 10% deposit, by 2019 that figure had more than doubled. The data confirms that the median mortgage deposit has increased from around £13,000 in 2007 to around £26,000 today[36] – as discussed in detail in the section on "Unaffordable Deposits".

10% deposit of median house price as a proportion of median annual earnings of 30- to 39-year-olds



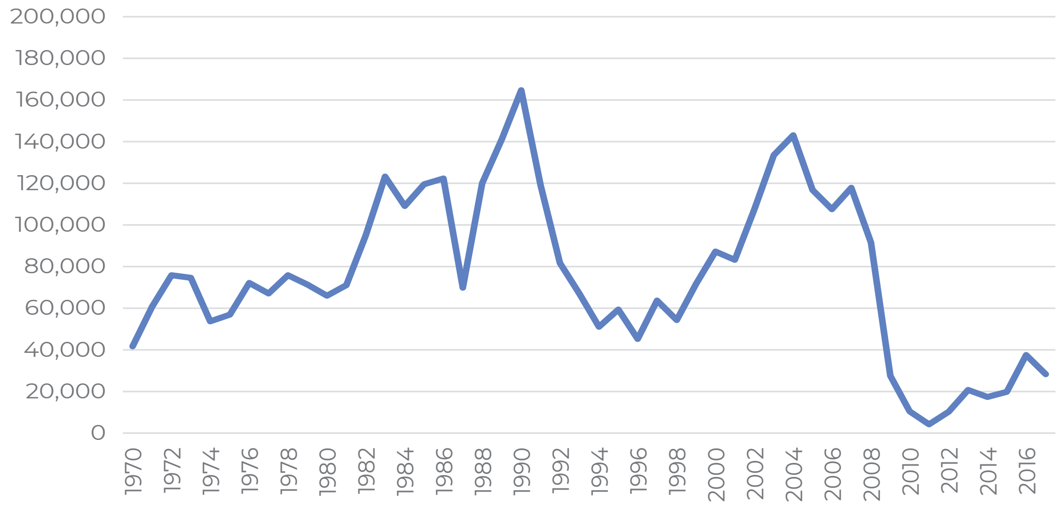
Source: Annual Survey of Hours and Earnings and ONS, House Price Statistics for Small Areas (HPSSAs) March of each year

Reform of mortgage regulation and the consequent reduction in the level of credit may have led to the need for larger deposits. However, deposits do not act as a constraint on existing owners, who can use the equity in their home to reinvest to go up the housing ladder, to buy a second home or, indeed, to support their children to buy.[37] Indeed, as we detail later in the report, the preferential access to credit for existing home owners has been one of the key drivers behind the growth of the PRS.

The falling value of mortgage advances (seen in the graph below) once again shows how sharp the decline has been over time, with the trend still a long way behind the peaks in 1980s and 2000s.

Mortgage regulation has impacted deposit levels and the ability of potential FTBs to access mortgage finance. The reforms, aimed at households who were considered "overstretched", have dramatically squeezed the ability to buy – leading to a sharp reduction in home ownership among younger households.[38]

Net mortgage advances divided by the House Price Index, 1970-2017, £ million



Sources: Bank of England and ONS. (Net advances are derived as the difference between the mortgage stock in any quarter and the stock in the same quarter of the previous year). From Meen, G Policy Approaches for Improving Affordability (Cache 2018)

Following the Mortgage Market Review new rules were introduced obliging lenders to ensure that borrowers could afford to service and repay the loan; introducing requirements to collect financial information, conduct affordability tests and stress test affordability against an increase in future payments; curtailing interest-only mortgages (where borrowers have a credible repayment strategy); and removing concessionary rates.

Alongside these changes the Bank of England's Financial Policy Committee was granted powers to ensure lenders paid regard to a 15% cap on new loans at 4.5 times loan-to-income levels or more, and applied an interest-rate stress test of 3% to the first five years of a loan. In addition to national regulation, the international (Basel) guidelines regarding provisions against lenders risks in downturn and higher capital weightings for higher LTV advances has further pushed up the cost of lending for those affected.

The Institute for Fiscal Studies quotes data from the Bank of England on how the average interest rate on a variable (or "tracker") mortgage has fallen over the past 20 years, showing a gradual decline in mortgage interest rates since the mid-1990s (from around 8% in 1995 to 5% in the mid-2000s). However, it argues that Bank of England statistics show that mortgage interest rates have not fallen as much on higher loan-to-value mortgages, such as those frequently held by FTBs – meaning many younger mortgagors will not have benefited as much from falling interest rates.

At the same time there has been an increase in housing investment from landlords, which in some places has pushed up house prices (and deposits) and thereby crowded out FTBs. Analysis by National Housing and Planning Advice Unit concluded that since their introduction in the mid-1990s buy-to-let (BTL) mortgages alone may have increased the average UK house price by up to 7% by 2007.[39]

Financialisaton of housing

A principal driver of investor interest in the BTL remains the differences in rental yields versus other asset classes.[40] Even though yields have been less buoyant recently, the investment value of buying property to let remains attractive. The capital gains from a rented property in many areas are also high relative to the costs of servicing the mortgage. This "investment value" means that landlord-investors (the majority of whom have minimum or no borrowing[41]) are colonising some of the homes that young renters would have bought.[42]

As discussed in the section on "Frustrated FTBs", the introduction of lower loan-to-value mortgages/ higher deposit requirements has favoured the landlord-investor over the FTB. This competition from investors has accelerated the tenure shift towards the PRS – with private investors buying homes for rent at a much faster rate than new homes are being built.

The Commission was told that the popularity of investing in housing to rent is part of the so-called "financialisaton" or "commoditisation" of housing. Economists such as Josh Ryan-Collins argue that the financial markets have become addicted to property and mortgage lending, benefiting existing owner-occupiers and the investor-landlord. According to Ryan-Collins, real estate became the preferred store of value in the face of stagnating incomes and falling yields on government bonds. To understand the problem of affordability, says Ryan-Collins, we must:

"…examine demand, in particular demand for housing as a financial asset and land as a form of collateral… 'land rents' have been allowed to grow as taxes on property and the public provision of affordable housing have both withered. Most significantly, the deregulation of the financial system has created a positive feedback cycle between finance and house prices."[43]

Tax and transfers

Arguably tax and transfers have played an important role in making housing less affordable, although the picture is complex. As the Mirrlees review noted:

"The tax system in the UK, like that of most modern economies, is full of non-neutralities which are hard to justify, wasteful, and ripe for reform. It distorts choices between debt and equity finance, between capital gains and other forms of capital income, between owner-occupied housing and other assets."[44]

The Commission also noted that housing taxes in the UK were higher than other OECD countries and that other factors might be more of a driver – even if there were reforms that could improve the tax system.

One part of the tax equation concerns transfers. In this field, the problems of affordability have become particularly acute for those in the PRS because of cuts to local housing allowance support. Successive reductions to the level of local housing allowance have meant that the number of homes within an area that low-income households can afford has been reduced. This has been singled out as a reason for the marked increase in the levels of homelessness in recent years.[45] Research by the CIH found that nine in 10 local housing allowance rates across the Great Britain failed to cover the cheapest rents:

"LHA rates are now so seriously out of line with local rents that private renting has become unaffordable for most low-income tenants and this substantially increases their risk of homelessness."[46]

The CIH notes that there is now a serious imbalance between funding new investment, providing services to tenants and ensuring affordability to households on low incomes.

Reforms are also affecting those within the social rented sector – notably with universal credit, when arrears build up as people first move onto the new system.[47] Work by Professor Hickman (at CaCHE) has also suggested that the impact of reforms may not just be affecting tenants themselves but also social landlords. He finds some evidence that housing associations are scaling back development and regeneration plans, in part as a result of welfare reforms.[48]

PART TWO

Costs and consequences

Housing unaffordability has far-reaching costs and consequences, with impacts not only on people's livelihoods, health and well-being but also on their life chances and opportunities. It also affects families and friendships and is a strain on communities. As mentioned, the problem is particularly acute for people whose housing benefit is insufficient to cover their rent. Affordability problems are also costing society, negatively affecting the economy and productivity, poverty and social mobility, and the public purse.

Housing stress is now a feature of housing markets in more and more areas. Growing numbers of households cannot afford to move or repair their homes, or pay their mortgage, or save to buy. Many are disconnected from the benefits of local growth and some are forced to move away from family and work.

Opinion polling for the Commission in February 2020 showed that around three in 10 British adults said they had been negatively affected as a result of their housing situation, rising to 45% of those with housing costs above a third of their net income. The main effect cited was worsening mental health, with nearly a quarter (23%) of struggling renters (with housing costs above a third of their net income) saying their mental health had been affected. Nationally, this could affect some 2 million people.

The poll also showed that parents with adult children living at home saw little prospect of them moving out soon: of these (and excluding those who responded "don't know"), nearly a third of parents with adult children living at home did not expect them to move out, or for it to take 10 years or more – potentially affecting 2.4 million people nationally.

Furthermore, the poll revealed that one in eight (13%) of under 45-year-olds in a relationship are putting off having children because of their housing situation – potentially affecting 1.8 million people nationally. Over half (57%) stated this was due to not being able to move to a larger property, or because their housing costs were too high.

National Opinion Poll: Households with their children living at home

- 15% of respondents stated that they had a child over 18 living at home.
- Of these, 24% stated that they did not think that their child would leave home.
- A further 7% stated that they expected it would take 10+ years for their child to move out of the family home.

- Excluding “don’t knows”, 44% stated that either they did not expect their children to move out or it would take 10+ years.

Examining all those with children over 18:

- 37% stated that they had a child over 18 living at home.
- Over half (57%) stated this was due to them not being able to move to a larger property or because their housing costs were too high.

One in 10 adults live with family or friends – a similar number as rent socially. This rises to 18% for 25- to 34-year-olds.

Own	PRS	Social rent	Live with family or friends	Other	
18-24	10%	28%	6%	52%	4%
25-34	39%	29%	11%	18%	3%
All	60%	16%	11%	10%	2%

Of those living with family or friends, a significant proportion of the public were unhappy with their housing situation.

	I am happy where I am and not looking to move out	I am happy where I am but I’m trying to move out	I am unhappy where I am and trying to move out	I am unhappy where I am but am not able to move out	Don’t know
Under 25	35%	36%	8%	15%	7%
25 or over	29%	24%	10%	28%	10%
All	32%	30%	9%	21%	8%

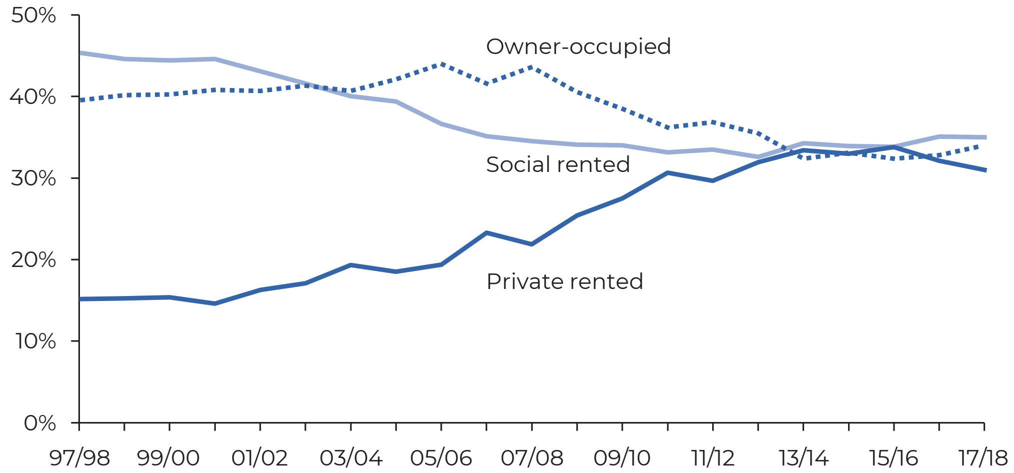
Source: AHC/YouGov online poll of 2,112 British adults: February 2020

Housing and poverty

Over the past 20 years, relative poverty levels for low-income households have fallen among home owners and social renters, although as this report – and others – have documented, the trend is reversed for low-income households in the PRS (where poverty rates have more than doubled).[1]

Much of the poverty relating to housing is unseen and unreported. Thousands of households suffer in silence and many are excluded from housing waiting lists.[2] Nevertheless, the MHCLG reports that nearly half a million households are in so-called “reasonable preference categories”, that is, living in unsatisfactory housing conditions or homeless.

Percentage of people in poverty after housing costs by tenure



Source: House of Commons Library, Poverty in the UK: Statistics 2019

The housing system has traditionally been a bulwark against poverty,[3] albeit viewed by some as the “wobbly pillar” under the welfare state.[4] Unfortunately, higher housing costs, flat income growth and welfare cuts have driven more vulnerable households into poverty – often families with children. According to the JRF, the increase in child poverty (to over 4 million)[5] has mostly occurred across low-income working families, who are disproportionately affected by housing unaffordability. Some of these households have had to turn to food banks or skip meals to get by.[6] A survey in deprived wards by the Thirteen Group, the largest landlord and developer in the North East, showed that 82% of tenants had taken “hardship steps” owing to their financial situation, including cutting back on heating, using a food bank, going without food or using an overdraft or a credit card.

As documented later in the report, poverty and deprivation is also linked to the prevalence in some areas of housing in poor condition, which in turn can lead to a host of mental and physical health issues.[7] The Building Research Establishment, for instance, estimates the cost of poor-quality housing to the NHS at £760 million a year.[8]

Housing stress is, of course, not the only pressure on low-income households, but it is often the most crucial. The Commission was told that high housing costs were pushing more and more households into debt. More struggling renters are taking out credit and many are using high-cost credit, adding to their financial difficulties. Because of their poor credit rating many are paying a “debt premium” in the form of higher deposits and or rent and cannot accrue sufficient savings. According to evidence from StepChange Debt Charity:

"For many of our clients a lack of affordable housing resulted in significant negative consequences. These included the extreme of being made homeless, to not being able to afford deposits or letting agent fees, feeling forced to move from their current home or simply putting up with problems because of the worry of eviction. All these problems affected a higher proportion of clients who rent, particularly in the private sector. A lack of affordable housing also had a negative impact on our clients' health, relationships and ability to work or find work."

Unaffordable housing is also a driver of fuel poverty. Currently, one in 10 households in England are fuel poor—around 2.5 million – and a large proportion are older households.[9] This is partly explained by the prevalence of an ageing housing stock,[10] but it is also a factor of housing stress – particularly higher rents and an inability to pay for repairs.

As housing costs absorb a greater proportion of household income, less is available for adaptations. According to the Papworth Trust there are 1.9 million households in England with one or more people with a long-term limiting illness or disability that require adaptations to their home. Many are living alone and on low incomes.[11] Surveys by the Trust suggest a fifth of these households could not afford to pay for adaptations.[12]

Homelessness

One of the most depressing consequences of unaffordable housing is homelessness. Not having a home is a disaster for many: it can damage a person's health, job prospects and make it harder to find and maintain relationships.[13] It can also have wider negative impacts on communities and public services. According to Homeless Link, the average cost of a homeless person to the public purse is £26,000 a year.[14]

The Commission was concerned that statutory homelessness in England had increased since 2010 (with homeless "main housing duty accepted" cases rising to 57,000);[15] that rough sleeping has risen sharply to over 4,600 per year (up 165% since 2010)[16]; and that the numbers in temporary accommodation has increased to over 85,000 pa (up 76% since 2010).[17] The consistently high proportion of homeless households with children is especially worrying,[18] as is the increase in the number of hidden (or concealed) homeless.

According to the English Housing Survey, around 3% of all households in England are now overcrowded,[19] with the highest concentration in social housing (8%) and the PRS (6%). Fewer owner-occupier homes are overcrowded (1%).[20] According to research by the National Housing Federation, more than one in 10 children in England are living in overcrowded homes (1.3 million from more than 600,000 families).[21]

The Commission heard evidence of very poor conditions in unsupported temporary accommodation, bed-and-breakfast accommodation, private hostels and multi-occupancy houses. It was also noted that more of the statutory homeless households in temporary accommodation were being placed out of the local area, often with damaging impacts on their well-being.

Temporary accommodation

There is an urgent need to provide more temporary accommodation at lower cost and better quality. The number of households in temporary accommodation has increased sharply and now includes 127,000 children.[22] And the cost has grown signficaintly, as more families are housed in private rented accommodation, often on a nightly rate.[23] The total cost of temporary accommodation to councils across England today has risen rapidly in real terms since 2010, to over £1 billion – three-quarters funded by housing benefit.[24] In London (which accounts for 66% of all those in temporary accommodation) the costs are increasing, with charges at around £325 a week.[25] The Public Accounts Committee concluded that government should enable local authorities to replace temporary accommodation with local alternatives that offer better value for money.[26]

The Commission welcomes the government's commitment to end rough sleeping by 2024, but was told that many councils are now struggling to prevent or resolve homelessness. The proportion of social lettings to homeless people (notably single homeless), for instance, has declined and access to decent private rented properties has become more difficult. Meanwhile, spending on housing-related support (through the former Supporting People programme) has decreased, placing renewed stress on council budgets.[27] The problem is known to be particularly acute in London and the South East, but also prevalent in other areas.

Crisis told the Commission the pressure to provide temporary housing for homeless people had created opportunities for exploitation:

"Disreputable landlords may more readily let poor quality, unsafe or overcrowded homes to people who have no choice, leaving homeless people at risk of very poor housing conditions which jeopardise their health and well-being. This is compounded by the impact of the freeze on Local Housing Allowance rates and the overall benefit cap."

The Commission was told that some social landlords were struggling to cope and that entitlement to welfare assistance was the most common reason for rejecting homeless nominees.[28] Solace, the network for local government and public-sector professionals, reported that the lack of affordable homes has kept people in temporary accommodation for longer, leading to further stress and cost increases.

Housing inequality

As mentioned, rising house prices and low interest rates have provided higher-income families (large numbers of whom are mortgaged home owners) with significant reductions in their housing costs. In contrast, housing costs have risen for poorer families – including for those on benefits; the share of social renters reliant on housing benefit whose rent is fully covered has fallen from 70% in 2010-12, to just 52% in 2015-17.

Since 2002, 90% of income growth for the lowest-income families has been absorbed by higher housing costs (equivalent to a £1,200 reduction in living standards). In comparison, for higher-income families, the fall in housing costs has acted to boost incomes by 13%. High-income families are £400 better off as their housing costs have fallen in real terms since 2002.

These trends have led to a redistribution of wealth in favour of home owners (mostly older owner-occupiers) and reduced the living standards of renters, especially struggling renters. Indeed, as Professor Danny Dorling and others have shown, worsening housing unaffordability has become a major contributor to widening income and wealth inequalities – both within and between generations, and between places.[29] According to *The Economist*:

"As well as being merely inefficient, housing markets are deeply unfair... the soaring cost of housing has created gaping inequalities and inflamed both generational and geographical divides."[30]

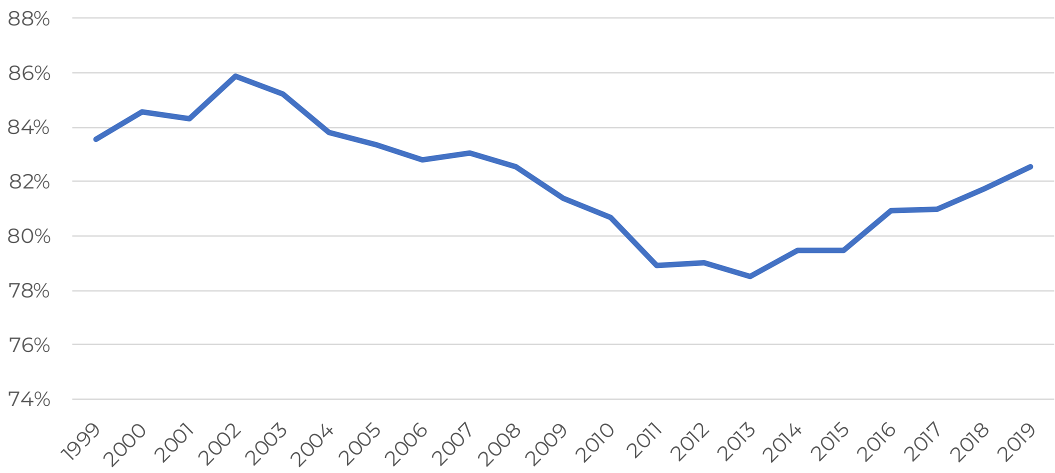
Housing wealth

Home ownership has become a major source of wealth, accounting for 35% of all household wealth (some £7.39 trillion – nearly half of which is accounted for by over-65s). Around three-quarters of the housing wealth is equity. Established home owners (mainly older owner-occupiers) have benefited the most from house price growth over the past decade, many having paid down their borrowing. Nearly three-quarters of the value gains from home ownership were in London and the South East, with London accounting for a quarter of total housing wealth in the UK (although the largest value gains in 2019 were in the Midlands and North).

Source: Resolution Foundation Inequality Street (2019) and Savills, 'UK housing stock now worth a record £7.39 trillion after decade of gaining £750 million a day' 2019

The incomes of young households have grown at slower rates than those of older households, and since the responsiveness of house prices to changes in income is shown to be strong, this puts young households at a relative disadvantage.[31] Those on lower incomes are also more likely to face higher housing costs as a proportion of their income (and low incomes are an important factor in suppressed household formation). Efforts to address earnings, incomes and wealth inequalities will therefore be an important component of easing housing affordability problems.

Median gross annual earnings of full-time employees aged 22-29 relative to all employees, 1997-2019



Source: ONS, Annual Survey of Hours and Earnings

Economic effects

As mentioned, constrained housing supply, especially of affordable homes, can have adverse macro-economic effects. Evidence to the Commission from both unions and business, for example, showed how higher private rents pushed up business costs and forced people to live further away from their place of work.[32]

More and better affordable housing in poorer areas is also critical to the government's plans to rebalance the economy. Revived growth in the North and Midlands, for instance, will mean more investment in a mix of affordable homes. Similarly, strengthening housing supply in the North supports positive, wider economic impacts.[33] Housing for the North, for example, is arguing that housing must be a key enabler for unlocking jobs and growth, alongside transport and skills. They also point out that that future requirements for housing in the North consist of 40% affordable housing – which is well short of existing delivery.

The economic costs of constrained housing supply are at their most extreme in high-demand areas, where rising house prices and high rents present worsening affordability problems. The Centre for Economics & Business Research estimates that unaffordable housing is costing the London economy over a billion pounds a year and thousands of jobs.[34] According to Shelter, one in five businesses regard house prices as a constraint to their business expansion, with rates over double that in London.[35]

Conversely, additional housing offers measurable economic benefits, not least improvements in the labour market, which in turn drives up productivity. Building more homes also creates more construction activity.[36] Indeed, some estimates put the multiplier effect of additional investment in housing and housebuilding at 2.84 times,[37] although there are displacement effects.[38]

There are also fiscal benefits of investing in new housing. With more jobs being created, the Treasury is likely to receive higher income tax and National Insurance Contributions. It will also decrease welfare spending as more people enter the labour market and do not claim jobseeker's allowance and other means-tested benefits.

Carbon reduction

Reducing carbon emission from existing and new homes will become ever more important. As outlined later in the report, besides helping tackle climate change, there are significant personal and societal benefits (such as lower fuel bills) from reducing carbon emissions from housing. However, progress has stalled and energy use in homes – which accounts for 14% of total UK greenhouse gas emissions – have remained static since 2014.[39]

Much more will need to be done if the government is to meet its legally binding climate change targets, including the near-complete elimination of greenhouse gas emissions from all buildings. According to forecasts by the National Grid, for the UK to meet its climate change target, up to 85% of homes will need to be at Energy Performance Certificate rating C or higher[40] – data from the English Housing Survey suggests however that at present, under a quarter of all homes meet that standard.[41] That needs to change quickly.

However, decarbonisation does demand upfront investment. Compliance with the new energy efficiency property standards, for example, will have differing cost implications on different housing providers, which could negatively affect housing affordability in the short term.[42]

Economic geography

There is an important geographic component to affordability, with house prices and rents highest in London and the South, where they have grown fastest.[43] In other places demand is weaker compared with supply, particularly in parts of the North[44] – although housing markets across the North are different to those in other parts of the country.[45]

Evidence to the Commission also highlighted the significant subregional and sometimes local variations. The Thirteen Housing Group in the North East, for example, showed that there is significant variation between areas which are very close in proximity in terms of affordability:

"For example, a three-bed house Affordable Rent property in downtown Stockton could go for as little as £86.40 per week, whereas a few miles down the road in Yarm, the affordable rate for a three-bed house could be £128 per week."

The Commission was also told that in some areas in the North and Midlands there is a surplus of social housing and that the underlying need is for greater housing diversity and sustained investment in regeneration and place-making. The latest ONS data (2013-18) showed that the gap between the most and least affordable areas continues to widen, with the least affordable areas (notably inner London boroughs) having worsening affordability at a quicker rate.[46]

According to Nationwide, the last decade has also seen a significant widening in the gap between the least affordable and most affordable regions. House price growth in London in the 2010s was 66%, compared with 11% in the North, 17% in Yorkshire & Humber and the North West, 33% in the West Midlands, 36% in the East Midlands, 38% in the South West and 43% in East Anglia. It is also noteworthy that although house prices in London have risen twice as fast as the UK average since 2010, for the previous decade (2000-2010), price increases were higher in the North, South West and East Midlands – albeit following a period of relatively low growth.[47]

Zoopla's analysis also highlights regional variation in rents, with rental growth over the last decade varying between 1% and 23% across the regions. Although average rents in London have fallen from their peak in 2015, they remain more than double that of the North and Midlands. Zoopla concludes that "there remains potential for further rental growth in regional markets where affordability remains attractive and levels of employment are rising".[48]

The Commission was acutely aware that housing markets are local and distinct, and that policies and priorities need to account for spatial differences. Although it was beyond the scope of this report to examine the regional economic disparities which lie behind variances in house prices and affordability pressures, the Commission does hold the view that rebalancing the housing system can play an important role in helping to "level up" the economy.

Average regional house price in 2019 and growth since 2005

	Average house price (£s)	Increase since 2005 (nominal terms)
North East	127,466	5%
North West	166,022	29%
Yorkshire & The Humber	167,181	31%
East Midlands	194,798	38%
West Midlands	199,802	35%
East	292,444	63%
London	477,813	101%
South East	320,454	60%
South West	258,602	43%

Source: HM Land Registry, UK House Price Index, 2019; data taken from July 2005 and July 2019

PART THREE

Defining affordability – who's affected?

Despite the widespread recognition of housing affordability as a national concern, there is little consensus about what it means in practice and who is most affected.[1] There are in fact few guiding principles or statutory definitions on affordability in public policy programmes and regulations. The short statement on affordability in the 2018 National Policy Planning Framework, NPPF (see Appendix 1) and the government's most used metric – the house price-to-earnings ratio – take insufficient account of individual incomes and circumstances. The latter tells us little beyond affordability at the middle of the income distribution, and with interest rates low, gives a misleading picture of the housing costs people face.

The absence of clear definitions has led to a contorted debate in the housing world about what is affordable housing and what is *genuinely* affordable housing. Much of that debate centres on the Affordable Rent model (introduced in 2010 and a central feature of the Affordable Housing Programme), which sets rents at up to 80% of the local market rent (around 60% in London). As mentioned later in this report, in the section on "Addressing Affordability Directly", the Commission felt that this definition of Affordable Rent broke with any common-sense definition of affordability. Rather than easing affordability, evidence to the Commission showed that Affordable Rent was in effect pulling capacity and resources away from providing social rented homes.

The overall picture has been further complicated by an array of definitions in other products, mentioned in the glossary of the NPPF. These include social rent – which incorporates income measures alongside the cost of housing provision – and mortgage regulations, which have the effect of setting an income-to-loan ratio. The term "affordability" loosely embraces a range of intermediate rent and for-sale products, many of which are clearly unaffordable to those on mid to lower incomes.

The Commission was told that the mish-mash of definitions had made it difficult for councils to attune affordability to local conditions – a problem made worse by the deregulation of planning and the bias in policy and funding towards market housing for FTBs.

Councils (and more recently combined authorities) have responded by devising their own affordability definitions and measures. According to the West Midland Combined Authority:

"A 'one size fits all' approach of the NPPF definition of affordability does not reflect the multi-dimensional factors that influence the costs of housing in the West Midlands for local people. In order to address the inaccessibility of both genuinely affordable rental properties and the growing gap between income levels and house prices, a regional approach needs to reflect a whole range of factors influencing affordability and housing market demand."

Manchester's Affordable Homes Programme and funding, for example, are based on a property costing no more, in rent or mortgage, than 30% of the current local average gross household income. The London borough of Enfield has adopted a definition based on people below the median income spending no more than a third of their incomes on housing costs, and the GLA's London living rent is derived from average local incomes and ward-level house prices, as well as numbers of bedrooms.

While no measure is perfect, the Commission considers it important to set clear and acceptable definitions and measures of affordability that are based on lived experience. The current situation is misleading and unhelpful and undermines efforts to meet housing needs.

The Commission proposes a new definition and alternative measures of housing affordability, focused on incomes and personal circumstances, rather than market prices. Our measures are based on an affordability threshold at the point when rents or purchase costs exceed a third of net equivalised household income (and take account of related affordability issues, such as housing quality, overcrowding, adequacy of housing benefit, household size and regional variations).

Rent-to-income measures

The Commission has looked at what level of income spent on housing is likely to cause hardship and housing stress. Existing research has suggested that rent-to-income is a good indicator of housing stress.[2] Our analysis also suggests that when rents or purchase costs exceed a third of the net household income, housing costs can lead to financial difficulties, arrears, debts and consequent personal problems. And the position gets much worse if that percentage of income is a lot higher: we have taken the 40% of income figure as signalling a very serious affordability issue.

It is tougher to spend over a third of your net income on housing costs if you are on a lower income than a higher one: you have less cash to spend on other essentials. So the Commission has concentrated on those in the bottom half of the income distribution (and when applied to assessing affordability for a specific area using local, non-national, earnings figures).

The Commission has then equivalised the basis for its definition by taking the basic household as two adults and by making allowances, up and down, to cover families with children and single-person households, using the same weightings as the DWP uses for benefit calculations. A household with six mouths to feed will find it harder to pay their rent than a single-person household with the same rent and income. To take account of housing benefit, rents are net of housing benefit to ensure that someone whose rent is fully covered by housing benefit is not classed as having an affordability problem.

In refining the definition, the Commission have also included those with an affordability problem based on a household's reliance on benefits. This draws on the residual income method of calculating defining and measuring housing stress. Percentages of income are meaningless for those claiming housing benefit. Government calculates benefit entitlement on the basis of the household's basic requirements for food, clothes, heating, and so on and, separately, its housing costs. If support for housing – housing benefit or the housing element in universal credit – is less than the actual rent the household must pay, the resulting shortfall must be found from borrowing or from raiding the benefits provided to cover the household's other basic needs.

The Commission is clear that in these circumstances the shortfall means the household has a real housing affordability problem (factoring in the position of those who are both in work and in receipt of housing support – those on "partial housing benefit" – where their income after housing costs takes them below the international poverty line).[3] Those below the poverty line whose housing benefit does not cover their full rent are therefore considered by the Commission as having a housing affordability problem.

Finally, the Commission has taken on board the relationship of the cost of accommodation to its quality. It would be ridiculous to say that the affordability problem is overcome if the tenant moves into a slum, which may be cheaper but is unfit for human habitation or is grossly overcrowded. Property unfitness is a significant affordability issue in respect of older owner-occupiers who live in abysmal conditions but who lack the income and the assets to upgrade their home or to acquire something better. Therefore, while avoiding the double counting of those who suffer both affordability problems and are also in unfit property, the Commission have brought within its scope the occupiers of all those in homes classified as "non-decent" and all those in statutorily defined overcrowding – see later section on "Affording Housing Quality".

Using this alternative definition and measures of affordability the Commission has divided unaffordability for low-income households into four different groups:

- struggling renters
- struggling older households
- struggling home owners
- frustrated first-time buyers

Each of these groups face different but overlapping challenges and different (but often inter-related) solutions.

Struggling renters

Tenants of working age whose rent is more than 33% of their incomes (with the refinements to this definition mentioned above) account for a tenth of all social housing tenants and over a quarter of all tenants in the PRS. But the figure rises to 16% in social housing and to 51% in the PRS for those households of working age in the bottom half of incomes. There are 1.6 million of these: 1.2 million in the PRS and 0.4 million in the social sector.

Within these totals the position is particularly grave for those who are spending more than 40% of income on their rent: 0.2 million in social housing and 1 million in the PRS. As a proportion of everyone in each sector in the bottom half of incomes, this means 9% of tenants in the SRS and an alarming 40% in the PRS face very serious affordability difficulties.

Number of households under retirement age, by rent to income

Percentage of all renters

	No affordability issue	33%-39%	40%+
Social housing	87%	6%	7%
PRS	71%	6%	23%

Percentage of renters in the bottom half of income distribution

	Under 33%	33%-39%	40%+
Social housing	84%	7%	9%
PRS	49%	11%	40%

Number of renters in the bottom half of the income distribution

	Under 33%	33%-39%	40%+
Social housing	2,000,000	170,000	210,000
PRS	1,190,000	270,000	950,000

Within this group are those, also of working age, whose (in-work and out-of-work) housing benefit leaves them short and who fall below the poverty line. After again avoiding double counting, this group adds another 0.5 million households. And a further 0.7 million renters are counted in to cover those (in the bottom half of incomes) living in non-decent and overcrowded conditions.

Struggling older households

Roughly 1 million older people, using our definition, have housing affordability problems today. The majority of these are owner occupiers in non-decent housing, on low incomes – 0.6 million households. The rest are tenants who are either paying over a third of their modest income on rent or are in receipt of housing benefit that does not cover their rent and are below the poverty line.

There are more than three times as many low-income older tenants in the social sector than in the PRS, although once again a much higher percentage of those privately renting cross our 40% plus unaffordability line.

Number of households over retirement age, by rent to income

Percentage of all renters

	No affordability issue	33%-39%	40%+
Social housing	90%	5%	5%
PRS	85%	3%	10%

Percentage of renters in bottom half of income distribution

	Under 33%	33%-39%	40%+
Social housing	89%	6%	5%
PRS	77%	6%	17%

Number of households in the bottom half of the income distribution

	Under 33%	33%-39%	40%+
Social housing	820,000	50,000	50,000
PRS	230,000	20,000	50,000

Here the Commission has a special anxiety about the future. The relatively small number of older tenants with an affordability issue today seems destined to be dwarfed by the numbers in the future when the younger generation in the PRS reaches retirement age. Those with incomes that are currently sufficient to avoid at least the worst of affordability difficulties may well find it impossible to afford their rent when their retirement income is appreciably lower. This looks like a major affordability crisis in the years ahead.

Struggling home owners

Some of those who have become owners are paying a proportion of income on housing costs that risks financial and social problems. For this group, the definition includes that part of mortgage repayments which goes to paying off the principal and accumulating a capital asset. The affordability measure is again set at one third of income.

This definition of affordability means the numbers in this category are relatively modest: under 1 million. However, these home buyers are in quite a precarious position: they face the possibility of higher interest rates and of employment and personal hazards that would lead to loss of the home. And many in this group also have the burden of being unable to "upsize" – to become "second-steppers" – if, for example, they want to start a family.

Frustrated first-time buyers

Levels of home ownership, especially among younger households, have fallen. To what extent is this a simple problem of affordability?

The Commission used two criteria to evaluate this: spending more than 33% (equivalised) of income on housing costs; and having the capacity to save for a deposit (of 10% of the cost of a property in the lowest decile of house prices within their region) within 5 years. This divides renters into those who could afford to buy and those who could not.

It suggests some 5.5 million renters are not in a position to buy a home of their own. But 1.6 million could buy: 1.3 million in the PRS and 300,000 in the social housing sector.

However, the estimation of potential for more home ownership is just an indicator. It fails to take account, on the one hand, of deposits being found from "the bank of mum and dad" or from an equity loan under Help to Buy (or similar deal); while on the other, it ignores the unwillingness of lenders to advance mortgages to the many in insecure employment. Moreover, it excludes those in the social housing sector with the right to buy.

One in five households under housing stress

Our three groups whose current accommodation is giving them a housing affordability issue – struggling renters, owners and older people, all on lower incomes – add up to 4.8 million households. This represents one in five of all households in England and almost 40% of those in the lower half of the income distribution.

A perhaps surprising number of these renters – 1.3 million – are in the social housing sector, where rents are lower but so are incomes. This is predominantly about problems with inadequate benefits, overcrowding and stalled progress on bringing all homes to a decent standard, rather than the cost of rents. A further 1.6 million are in the owner-occupier sector, a large proportion being older home owners in unfit property.

But it is in the PRS that the greatest problems are found, with 2 million households in potential difficulty. These households represent 43% of all households renting privately. Moreover, the households devoting 40% or more of their incomes to rent – the group at highest risk – are mostly in the private rented sector: there are over 1 million of these in the lower half of incomes.

In regard to frustrated first-time buyers, the Commission's calculations suggest that 1.6 million renting households have the means to buy. This suggests that for hundreds of thousands of households currently renting – the vast majority in the PRS – the aspiration of home ownership need not be thwarted simply by the problem of affordability.

As reported in the Commission's focus groups, the public are intimately aware of the costs and consequences of housing stress and have strong opinions about the possible policy solutions. The box below provides a snapshot of views.

Public opinion: Restoring the housing ladder?

The Commission held focus group sessions in North Birmingham in May 2019 to discuss solutions for the four key groups suffering housing stress. The main findings were:

- *Struggling renters*: Perceived to be trapped in low-quality privately rented accommodation, with rents that continue to rise beyond earnings. This group were focused on survival rather than climbing the ladder. There was agreement that it seemed almost impossible for this group to buy a property. *"It's completely impossible. You'll never own your own property," "You are honestly close to becoming homeless. Say one thing messes up with your landlord – you could be on the streets."*
- *Lower-income older people*: Attention was on the relationship between their housing situation and their physical decline over time. Dependence on benefits was identified as a concern. Struggling renters reflected on whether they would be in this group in the future. *"We were concerned about the state pension and if you don't have any other pension, what if you can't pay your rent when utility bills go up every year?" "I feel very depressed talking about this. It's very morbid. I feel like there's no hope."*
- *Struggling home owners*: If the cost of living rises above incomes then participants wondered if lenders felt any social responsibility. There was anger at banks irresponsibly offering credit cards and loans and then taking a tough line on mortgages. This group identify as victims of a "debt trap" created by banks. *"This is where it's about protection – if you lose your job. There has to be something in place."*
- *Frustrated first-time buyers*: It was seen as impossible to save for a deposit – being forced back to live with family to save is more common. Their lives are

perceived as being on hold, delaying the big life decisions about having kids or developing their careers until their housing situation is resolved. *"I had a friend who lived back at his parents' house with his fiancé for two years. It was awful."*

The workshops examined possible options for change, including reform of the PRS, removing barriers to buying a home, and increasing the supply of socially rented homes. This last measure was theoretically popular but most participants did not aspire for themselves or their children to live in a socially rented property. The most popular responses were: a return to a "property ladder"; regulating the rent landlords can charge; creating a new "living" rent; ensuring privately rented housing reached a minimum quality standard; financial support for mortgage payments for home owners who lose their jobs or struggle to meet their costs; restricting buy-to-let mortgages; and prioritising local housing for local people, especially those with young families.

The Commission recommends the government adopt the housing affordability definitions, measures and targets as outlined in the report – so they are embedded into national housing policies and plans (i.e. as both a normative threshold and practical guide to policy making).

PART FOUR

Rebalancing the housing system

As mentioned, the affordable housing crisis is complex, multi-layered and localised. Solutions are shaped and reshaped by political priorities and economic events. Housing is also far from a free and open market. Governments have consistently intervened, not least via the tax, welfare and planning systems. Such interventions can be effective, but can have unintended consequences.

Indeed, in the recent past one of the most significant consequences of the sharp reduction in social housing at a time of unfettered house price inflation and low household income growth has been the trend for more and more households to live in private rented accommodation.[1] While the number of social rented households decreased (and home ownership became ever more expensive), the number of small-scale private landlords has increased.

This tenure shift has been accompanied by major changes within the social housing sector itself. As mentioned, over two decades the sector has been transformed from supporting social rented housing for low to mid-income households to supporting housing models that are aligned (and priced) to the market. These market-based models require less subsidy but are more expensive for tenants.

The contention of the Commission is that the housing system – with the PRS expanding dramatically and other tenures declining – has become unbalanced, inefficient and unfair. At a time of flat income growth and then austerity, the fast-growing PRS has become particularly ill suited to meeting the needs of low- to middle-income households. While there are important local differences to consider, higher rents in the PRS and the loss of sub-market housing has increased levels of unaffordability and added to the already large housing benefit bill.

Is the PRS fit for purpose?

While tenant surveys show that the majority of private landlords provide a good service and have good relations with their tenants, the evidence to the Commission suggests that growing numbers of households in the PRS are suffering housing stress.

The Commission heard how private renters are poorly protected and represented, have limited advocacy compared with other consumer sectors, and that monitoring and enforcement of standards in the PRS are weak. Government statistics also show that the PRS has the highest rates of churn within the stock, the highest proportion of non-decent homes, rising levels of overcrowding, and shorter tenancies. Most significantly for the Commission, the analysis showed that PRS rent levels are problematic for a significant minority who have nowhere else to go.

Issues of unfair treatment, insecure tenancies and unaffordable rents are now being widely reported. According to analysis by CaHCE, the PRS:

"…offers some very high-quality accommodation and professional management services… but it is also the sector in which poor-quality property is most prevalent and poor management practices unacceptably frequent. Moreover, conditions in the poorer parts of the market may be deteriorating."[2]

The Commission is particularly concerned that the PRS is housing too many vulnerable and low-income households, many of whom in the past would have lived in social housing where they would have been paying lower rents and able to access other services provided by social landlords. The impact on families is a major concern, especially on young families where only one person is working full-time. Generation Rent told the Commission that areas with the largest increases in rents were often those where there had been an increase in single private renters living together in one property. In such cases, a three-bed home might be occupied by three or more people earning average local earnings – which means they can collectively afford to pay a higher rent than a family with one earner. Given the lack of alternatives, this trend is forcing families into cheaper, poorer-quality accommodation.

Evidence from StepChange Debt Charity revealed that the fastest growth in demand for debt advice came from those renting in the private sector, where housing problems affect twice as many clients as social renting. The charity concluded:

"This raises the question of whether private renting, traditionally a short-term housing solution for the young, is the place we should be housing vulnerable people on consistently low incomes, particularly when they are already in financial difficulty."[3]

As was made clear in the Commission's polling and focus groups, the higher cost of private renting has dented the aspiration of households who previously would have aspired to move up the housing ladder.

The growth of the PRS also threatens the social mix of an area, with poorer private tenants at risk of being priced out of their community. A residential market survey from the Royal Institution of Chartered Surveyors (RICS) and Crisis in 2019 showed that around a third of RICS members said homeless people and those on housing benefits were being pushed out of the private rental market as rents rose and benefits were cut.[4] Other tenants may be forced to seek more space and lower rents in cheaper places but then must absorb the extra travel to work costs. Evidence to the Commission from both unions and business also showed how higher private rents are forcing people to live increasingly further away from their places of work.[5]

The expansion of the PRS (and higher rents all round) has also come at a heavy cost to the public purse. Since the early 2000s, the share of housing benefit spending accounted for by the PRS has risen to over £9 billion a year (around 37% of the total bill).[6] Furthermore, a third of the real-terms growth in private sector housing benefit spending is directly attributable to real-terms rent growth over a 10-year period to 2010/11.[7] That situation is expected to worsen as the vast majority of new claimants are predicted to be private renters, paying higher rents and receiving higher benefits than in the social rented sector. According to Paul Johnson, director of the Institute for Fiscal Studies:

"A system that looked manageable when it was mostly supporting those facing below market rents in the social sector and a relatively small private sector looks much harder to maintain as it provides support to increasing numbers facing full market rents in a much-expanded private sector."[8]

There are also potentially wider economic ramifications. The expansion of the buy-to-let market, for instance, has been shown to increase house prices.[9] And increased lending poses risks to financial stability. Mortgages do allow people to buy without waiting decades and this consumption smoothing enhances individual welfare.[10] However, this would not apply to landlords, who tend to be existing home owners and older.[11]

The majority of private landlords maintain their properties to a decent standard and are not exploiting their tenants. However, it is clear to the Commission that parts of the PRS are unsuited to providing housing for low-income households. As documented in the previous section, a disproportionate number of low-income households are already paying over 40% of their income on rent in the PRS.

Many private landlords are uncomfortable with housing low-income households. Research sponsored by the Residential Landlords Association (now the National Residential Landlords Association), for instance, found that affordability for low-income private renters was a significant barrier to accessing housing in the PRS. The majority of landlords (57%) reported that they would not be willing to rent to benefit claiming tenants where they know there is a shortfall between the amount covered by benefits and the rent charged. Over a third of landlords (36%) reported that they had mortgage conditions that prevented them from letting to benefit claimants.[12]

The amateur landlord

The tenure shift has been characterised by the growing number of small-scale private landlords, many of whom are home owners and investing in one or two properties to rent because it offers (or is perceived to offer) a better return than alternative investments, such as stocks and bonds. As Daniel Bentley, former editorial director at Civitas, explained to the Commission:

"After its deregulation, private renting became attractive again to small investors. Then, as interest rates and bond yields started falling from the mid-1990s, so these 'amateur landlords' chased down the yields on property too – the effect being to drive prices up beyond what many would-be first-time buyers could afford. Many were recycling equity they had acquired on their family home in the same boom. What we've seen has been the colonisation of the private housing stock by those with capital at the expense of those without it."

According to the Resolution Foundation, one in 10 British adults now owns a second property, although the vast majority do not rent them.[13] The Commission was told that many of the so-called "amateur landlords" start out with good intentions but discover the role is harder than they thought and fail to understand or keep up with the regulations (such as compliance with energy performance requirements). Some also struggle with higher agency fees.

Landlord views on their role and why they became landlords

Reasons for becoming a landlord		*How landlords view their role*	
wanted to let property as a full-time business	4%	as a full-time business	4%
preferred to invest in property rather than other investments	46%	as a part-time business	14%
wanted to supplement earnings / income	34%	as an investment, for capital growth	30%
to provide a home for a relative / child / friend	7%	as an investment, for rental income	47%
as a pension contribution	44%	as a temporary investment	4%
inherited/was given the property	6%	as a long-term investment to contribute to my/our pension	59%
could not afford the mortgage to live in ourselves	2%	as a residential landlord	13%
other	16%	providing housing as an employer	0%
none of the above	2%	other	4%

Source: MHCLG, 2018 English Private Landlord Survey (EPLS)

The tenure shift

As mentioned, one of the major drivers of housing affordability for many low to middle income households is the tenure shift towards the PRS. After nearly doubling in size, private renting has become the second largest tenure after home ownership, a position it last held in the 1950s.[14] This shift, which has occurred mainly in the existing market rather than as a result of new supply, continues, albeit at a slower pace.

Profile of the PRS

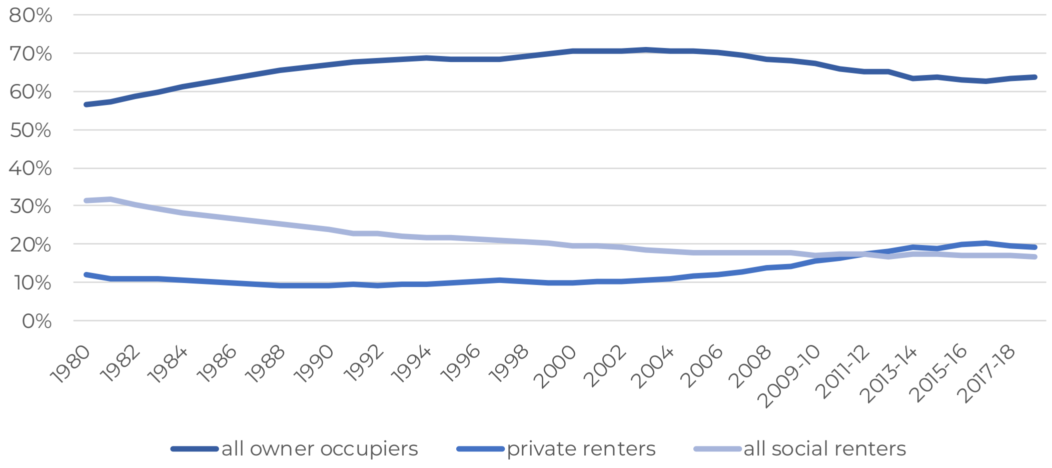
- There are around 1.5 million private landlords in England. The PRS is now the second-largest sector, after owner-occupiers.
- The vast majority (94%) are individual landlords, not companies: 45% have a single property and 83% have fewer than five properties – most purchased their properties as some form of investment.
- Those with fewer than five properties hold 52% of all tenancies and those with fewer than 10 own 70% of tenancies.
- The proportion of households in the PRS has doubled in two decades to 19% (housing over 4.5 million households).
- The number of private renters has increased across all age groups, with many more families and older people renting.
- The churn rate in the private rented sector is higher than in other sectors.
- The proportion of 35- to 44-year-olds renting privately has grown from one in 10 (9%) in 2003/04 to three in 10 (29%) in 2018/19 over the past 20 years, (housing 1.2 million households).
- Private renters spend more on rent than social tenants.
- The value of the PRS has risen 124% over the last decade, to £1.62 trillion.[15]

Source: MHCLG English private rented sector survey', 2018, and MHCLG, English Housing Survey: Headline Report, 2018-19 (2020)

The PRS has become the replacement tenure for many households who would have become home owners in the past. As the table below illustrates, home ownership rates fell from a peak of 71% to around 64% today. Meanwhile, the PRS has risen from around 10% to 19% (and as high as 40% of housing in some inner London boroughs). That correlation shows itself primarily in the growing number of young people who are effectively priced out of buying and confined to renting. Indeed, the chances of a young adult on a middle income owning a home has more than halved over the past two decades. As the IFS told the Commission, middle income young adults born in the late 1980s are now no more likely than those lower down the pay scale to own their own home.[16]

This is a seismic change and it will have longer term consequences if more and more households have to stay in the PRS for longer. According to Shelter's forecasts, by 2039 there will be 1.17 million more young people in the PRS unable to buy a home (and 400,000 older households).[17]

Tenure mix, 2000-2017/18



Source: English Housing Survey

The recent tenure shift has been profound. However, scanning out we can see that there has been much bigger tenure shift over the last 40 years. Home ownership, for instance, which declined by 6 percentage points between 2000-2018 (the first fall for a century) is still higher today than it was in 1980. The PRS has meanwhile almost doubled as a proportion.

In parallel with these shifts has been a decline in social housing, dropping by almost half from 32% to 17% (with the largest falls in the 1980s and 90s). According to MHCLG, the social rented sector has declined by around 500,000 homes since 1991, with the housing associations stock growing to 2.4 million (from 0.6 million in 1991) and council owned housing falling to 1.6 million (from 3.9 million in 1991). It is noteworthy, that much of the housing association growth and drop in council homes is stock transfer, although the RTB has had a significant effect – see later section on the RTB.

The data suggests that a strong push for home ownership may curb the PRS slightly in the short to medium term but have little longer term effect for the less affluent, disadvantaged by the decline in social housing.

Who's impacted by the tenure shift?

It is important to note that the tenure shift has not been equally experienced. It is most pronounced amongst lower income households, many of whom would have previously been in lower cost social housing. This shift continues but to a lesser extent amongst those in the second income quintile. By the third quintile the drop in households living in social housing is more equally distributed amongst those living in the PRS and home owners.

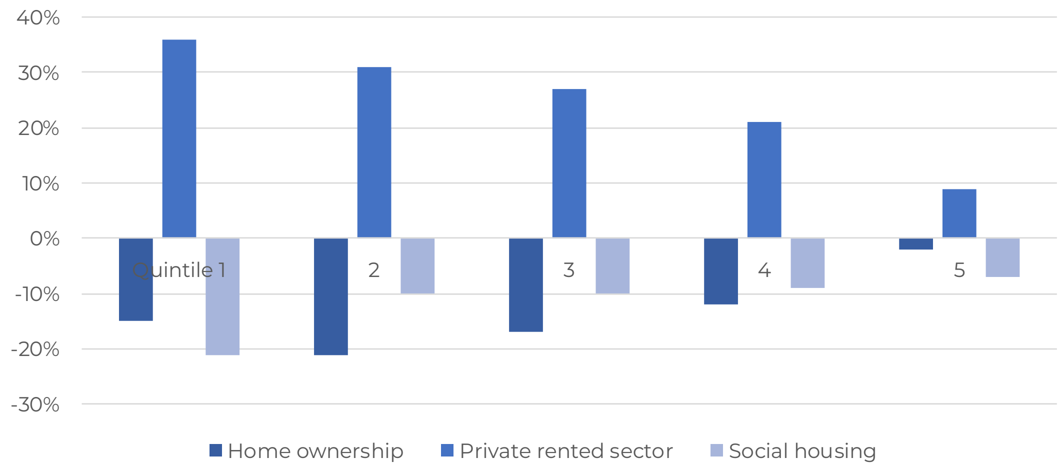
For the top two income quintiles the decline in households renting from a social landlord is explained by increases in home ownership. So, although the overall shift away from social housing has resulted in increases in both home ownership and private renting, it is those on lower incomes that are now more likely to be in the PRS.

Percentage point change between 1980 and 2016/17 in tenure by after Housing Cost Income Quintile (quintile 1 = lowest incomes)

Sources: IFS Households Below Average Income Dataset (1980); English Housing Survey 2016/17

The PRS now houses proportionately more households with families. In the future it will house many more older, low income people. The interplay between tenure and age in the graph below shows the change across all income brackets. It also illustrates the major changes from one generation to another, and how this negatively impacts on lower income households. So, while in 1980 the majority tenure for younger people in the first income quintile was social housing today it is the PRS.

Percentage point change in tenure for younger people, 1980-2016/17



Sources: IFS Households Below Average Income Dataset (1980); English Housing Survey 2016/17

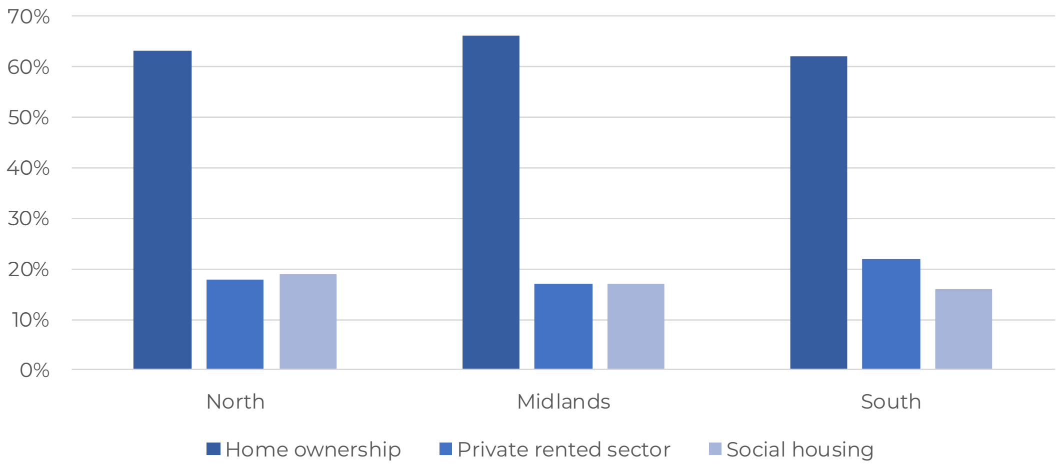
Changes have been more equally spread by region, with a larger increase in the PRS and a larger decrease in social housing occurring in the North. This spatial element is important as part of the rebalancing could happen through switching properties (especially poorer quality homes) in lower value areas.

Percentage change in tenures within regions, 1980-2016/17

Sources: IFS Households Below Average Income Dataset (1980); English Housing Survey 2016/17

The tenure split between regions is now fairly similar, with slightly more private renting in the South and a bit less home ownership.

Tenure split by region, 2016/17



Sources: English Housing Survey 2016/17

The growth of the PRS is expected to slow as a result of the withdrawal of tax and other incentives – especially affecting Buy to Lets. However, the Commission was informed that landlords are adjusting to the changes: many are not affected by loss of mortgage interest tax relief because they have no borrowing; more are starting to let properties which would have been previously let on a residential basis as a very short term lets (increasingly Houses in Multiple Occupation); and others, usually with larger property portfolios, are switching to a limited company tax status.[18]

Although the PRS market appears to have cooled somewhat (and rental yields are now starting to lag behind earnings) the fundamental impact of the tenure shift remains. Few commentators are forecasting a steep market-led contraction. As the 2018 Rugg Review noted:

'Overall, the taxation changes have created a less favourable framework for small landlordism but are unlikely to have diminished the appetite for small-scale, individual residential investment. Investing in property remains immediately understandable, and well-chosen property can still generate competitive returns. Furthermore, the mortgage market is strongly oriented towards meeting demand for BTL mortgage products, and market intermediaries are likely to develop partnerships to offer personal taxation advice and steer new landlords towards incorporation. Single-property, pension landlords will continue to be widespread as a landlord type.'[19]

Rent rises

The long-term increase in the amount of incomes absorbed by rent has been a feature of the tenure shift. The median housing costs to incomes ratios was around 8% for private renters in 1980: today it stands at 33%.[20] This is probably a product of stringent rent controls which were reformed and eventually abolished in the 1980s. Taking 1990 as the baseline, median rent to incomes were 24% - still significantly below today's levels. Indeed, if rent levels had stayed the same, then the number of households paying over a third of their incomes in rent would be 60% lower today.

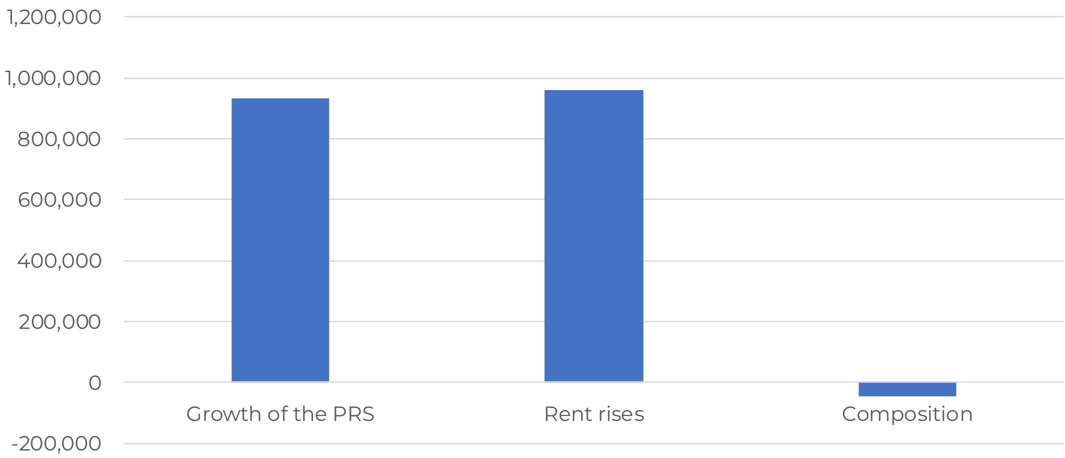
The Commission also noted that the number of tenants facing rent increases continues to rise. According to ARLA Propertymark, the number of tenants experiencing rent hikes hit a record high in 2019.[21] The letting agent claims that the increase is in part due to the impact of the tenant fees ban (although this might not therefore add to overall housing costs). David Cox, ARLA's chief executive, commented that:

"Following the Tenant Fees Act coming into force in June, rents have continued to rise, which we believed would happen. The fees agents have been banned from charging are still being paid for by tenants, however, it's now through their rent, rather than upfront costs".[22]

What has been driving the underlying growth of affordability problems for those in the PRS? This can be understood by unpicking the extent to which the numbers of all private renting households paying over a third of their income on rent has been driven by the growth of the sector (more people living in the PRS where rents are higher), rising private rents or a compositional shift (as rent makes up a higher proportion of income for lower-income renters).

The graph below shows that half the increase in unaffordability is due to rent rises above increases in incomes, and the other half because of the growing number of households living in the PRS (the increased number of tenants paying over a third even if relative rents had remained the same). There was also a small reduction in unaffordability caused by compositional change, driven by a slight shift from lower- to higher-income households being in the PRS rather than buying.

Drivers for increase in the number of private rented tenants paying over a third of their income on rent



Sources: IFS Households Below Average Income Dataset (1990); English Housing Survey 2016/17. The ratio is slightly different to the AHC definition to enable a comparison – the ratio is rents as a proportion of equivalised household income before housing costs, but does not deduct housing benefit from rents.

Thus, the data suggests that affordability problems are largely down to the rapid (and relative) growth of the PRS alongside relative rent rises. Factors behind the rent rises are complex including the impact of the unwinding of regulations, but nevertheless show that over the long-term affordability of private rents have worsened.

Frustrated first-time buyers face not only higher rents, but also the cost of raising a tenancy deposit in the first place (usually four weeks rent or more). According to market analysis from deposit specialists Hamilton Fraser, low-paid workers (such as a cleaner or a secretary) can expect to pay around 9% of their annual earnings for the average rental deposit, taking five to six months to save[23] – see section on "Unaffordable Deposits".

Changing the tenure mix

A more productive way to view what sort of tenure mix might be needed to support greater housing affordability is to try to match housing needs with aspirations. For example, some home owners may be better suited to other tenures. However, it is unlikely that many would voluntarily seek to move into the PRS. There may also be scope for more social tenants to be helped into home ownership, but this might be at the margins, as only around 0.08% of social renters move into home ownership each year while a similar number move from home ownership into social housing.[24]

The measures the Commission proposes in order to stabilise rents, including improving the welfare system, will help longer-term affordability. Improving the PRS in other ways – better energy efficiency and stronger security of tenure – is also likely to enhance the deal for renters and reduce demand for social housing. Nevertheless, for many households, affordability problems will only be fundamentally addressed if there is significantly more stable and genuinely affordable social housing on offer, and close to where they live. Meanwhile for those on middle incomes, the measures the Commission is proposing will support more households into home ownership from the PRS.

Examining what housing tenure people within the PRS might be able to afford gives an indication of what degree of tenure shift might be needed. If mortgage regulation remained the same but the deposit barrier were reduced to 5% (see section on "Help to Buy"), then around 660,000 renters would be able to buy.[25] Around 60% of PRS households can afford a market rent while the other 40% require a sub-market rent to enable them to pay under a third of their income on housing costs.[26]

Tenures that would support affordability for those in the PRS

	Number of households
Home ownership	660,000
Market rent	2,360,000
Sub-market rent	1,540,000

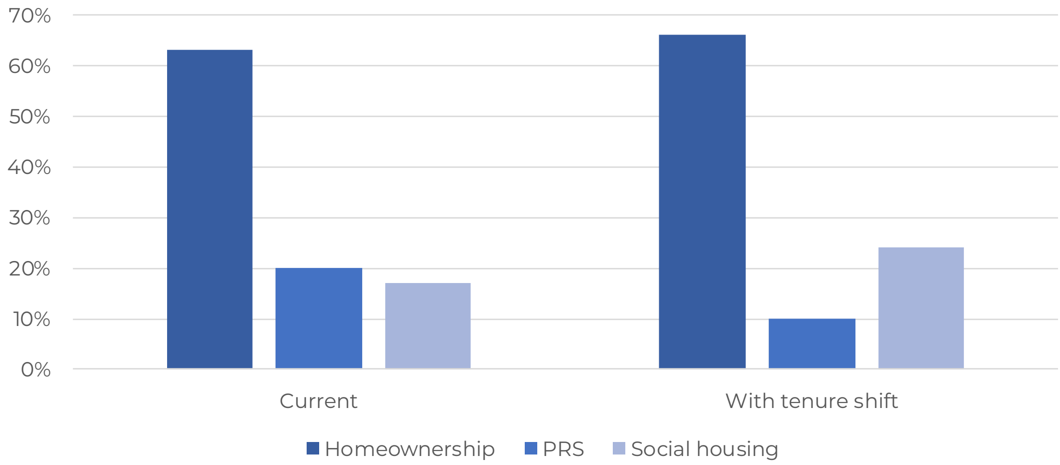
Half the households in the PRS would be more suitably housed, from this analysis, in either the social housing sector or in home ownership. If these households were housed according to their ability to afford their housing costs, then there would be a notable tenure shift towards social housing, and a modest rise in home ownership levels.

Delivering much higher levels of new supply would see a reversal of the diminution of social housing stock. However, new housing supply is only half of the equation. Achieving a more balanced housing system will also require strong interventions in the PRS, including the state pro-actively purchasing existing properties to rent at a social rent – see later section on "Buying for Social Rent".

What would a recalibrated housing system look like? A snapshot analysis by the Commission suggests that over the next 20-25 years, social housing as a proportion of the housing stock – on the basis of the recommendations in this report – could increase from 17% to around 24% (even with an increase in private housing delivery).

The PRS meanwhile would contract over time by nearly half, to around 10% – close to where it was in 2000. Home ownership in England would increase slightly to around 66%, roughly where it was in 2012.

Potential tenure shift to meet affordability



The Commission believes that to address the fundamental causes and not just the symptoms of the affordability crisis, the government should take concerted action to rebalance the housing system, and in particular, to shift the tenure mix far more towards social housing as well as affordable home ownership. This would make the housing system fairer and more efficient.

PART FIVE

Affordability: a national priority

The Commission welcomes the forthcoming consultation on First Homes (intended to provide homes for local people and key workers) and the social housing white paper, which follows the green paper, *A New Deal for Social Housing* (2018). The new government's plans to abolish section 21 "no-fault evictions", crack down on "rip-off" leases, better protect tenant deposits and introduce tighter controls over houses of multiple occupation. These initiatives are supported by the Commission.

However, the Commission believes that more comprehensive and strident action is necessary to improve housing affordability. Other measures to improve the PRS, and strengthen bargaining power and conditions for tenants, are important and long overdue. But the problem of affordability demands structural change and a tenure shift in support of social housing. It also requires a unified approach, encompassing improvements to housing conditions and rent reforms.

Affordable housing targets

Housing targets are not without their shortcomings. They can be too narrowly focused, with the danger that they ignore or underplay other important factors, such as the impact of welfare reform, build and design quality or the lack of building capacity and skills (see later section on skills). Careful consideration must also be given to the impacts on property transactions and additionality.

Having a definition of affordability gives a clearer understanding of the scale of the challenge and what kind of products are needed to help to reduce the number of people in unaffordable housing. Making proper use of the definitions and measures though requires evidenced-based targets for reducing the proportion of households in unaffordable housing.

To focus minds and ensure ministers are held to account, the Commission sees merit in the government setting out a firm commitment to reducing the number of households in unaffordable housing. This would be linked to the Commission's alternative definition and measures and would signal that improving affordable housing is a national priority in word and deed.

But without targets, the danger could be that the pace of change will be slow and there will be drift when urgency is demanded. Indeed, the Commission was told that success needed to be rooted in a long-term commitment (with interim goals), similar to the 10-year Decent Homes programme or the targets to tackle fuel poverty and climate change.[1]

Setting a sensible target for increasing the number of first-time buyers is fraught with difficulties. Assisting people into home ownership they cannot afford would cause hardship. It could in fact increase the levels of unaffordability, at least on the AHC's measure. Nevertheless, there appears to be considerable scope for people to own in a sustainable way if they were able to raise a deposit and secure the necessary credit. For those renting without support of housing benefit, home ownership is often just as affordable.

So, in line with the Prime Minister's pledge to support home ownership,[2] the Commission suggests that the government also make a commitment to improving the level of affordable housing, with five- to 10-year housing targets aimed at achieving a longer-term objective.

The power of setting targets is that the government is held to account. To make that accountability effective and useful, the Commission suggests that the government considers establishing an independent housing affordability panel. This body could report to Parliament and be tasked with scrutinising and evaluating the progress that government has made in reducing the numbers of households in unaffordable housing and meeting its targets. It could also offer independent advice, in a similar way to other advisory bodies such as the National Infrastructure Commission or Social Mobility Commission.

The panel, comprising landlords, developers, tenants and other voices from across the sectors, could act as an information store house, undertake research and promote best practice and guidance on affordability issues to the housing regulators, Homes England, the planning inspectorate, local government and others from the housing world.

Given the complex interplay between the myriad public bodies and regulators covering several departments, the Commission suggests that the government also establish a cross-departmental housing affordability unit.

The Commission recommends that the government commits to ensuring that no child born today should face living in housing that is unaffordable for them by the time they are likely to form a household of their own. Across tenures, this would mean access to affordable housing opportunities for all by 2045.

To meet this target, the Commission recommends central government works with local government to draw together a National Housing Strategy, adopting recommendations from this and other reports.

A partnership approach

Neither individual players or agencies, nor the market alone can make the difference required. Change on the scale recommended in this report demands a coalition of the willing, an alliance for change. It also requires the government to lead and carry through a series of carefully managed interventions. Public agencies, such as Homes England, and Whitehall departments need to work closely and co-operatively with local government, metro mayors, housing providers, regulators, lenders, tenant groups and other stakeholders (such as the local enterprise partnerships).

A crucial part of the transition to rebalancing the housing system will be greater co-operation between local authorities and housing associations. For the past 30 years, local authorities have for the most part remained dependent on housing associations to provide almost all new affordable housing stock. Similarly, councils rely heavily on housing associations as social landlords in order to fulfil their role in allocating social housing and discharging duties to the homeless. However, as housing expert Andrew Heywood points out, there has been a change in the culture of housing associations, particularly the larger associations with significant development programmes. While acknowledging the diversity of experience, Heywood's research concluded:

"This changing relationship has been manifested across the different roles and functions where local authorities and housing associations interact: including a more 'commercial' attitude to development among housing associations in terms of both planning and their response to local authority strategic housing needs and a more risk-averse attitude to allocations and local authority nominations."[3]

The Commission was told that partnerships and alliances between local authorities and housing associations were improving. It was said that the government recognised the need for stronger partnerships and that Homes England had been encouraging this, although the funding landscape had made it extremely challenging for both councils and housing associations.[4]

Tensions between councils and housing associations, over land and planning consents, funding and cross-subsidy, allocations and lettings policies and so on, are not new. However, evidence to the Commission shows that there are many good examples of joint working and partnerships to deliver affordable housing. As discussed in the later section on "Councils Building Again", there has more recently been a new wave of partnerships and joint ventures, as well as the growth of council-led local housing companies. The Commission was told the attraction was not only additional finance and skills and helping to de-risk projects, but also allowing councils to giving councils to "get some skin in the game" – providing a mix of housing types; see section "Councils Building Again".

At its regional events the Commission was constantly told that "tinkering with the policy and regulations" could undermine public-private partnerships. At its extreme, the uncertainty can hamper development and deter lenders. It was said that investors in affordable housing valued the stability of social landlords and that there was an appetite to back the sector.

The Commission was told that everyone wanted greater certainty and predictability, especially regarding investment in social housing. Social landlords work to 30-year business plans; getting boards to bring forward investment for more social housing demands a degree of long-term reliability that is lacking at the moment. It was noted that past reforms to mortgage interest relief (Miras) and council housing finance (the housing revenue account reforms) demonstrated a longer-term approach and spanned both Labour and Conservative governments.

Reference was made to housing policy in Scotland, where it was said affordable housing, and especially social rented housing, was widely seen as a higher priority. It was noted that poverty was lower in Scotland than elsewhere in the UK, in large part because Scotland had a larger social rented sector and consequently lower rents.[5]

Affordable housing in Scotland

Scotland is in its second five-year affordable housing supply programme. The 2011-15 programme delivered just over 30,000 social affordable homes, of which two-thirds were social rented. The current programme (2016-21) is more ambitious and seeks to build 50,000 homes, of which 35,000 will be social. Grants of up to £70,000 a unit are available for social housing, with councils able to access subsidy at slightly lower rates than housing associations. The abolition of the right to buy is widely seen as key to unlocking the potential for new council house building (alongside grant support).

The Scottish government has allocated more than £3 billion for housing, including grants for Affordable Rent, known as mid-market rent, which have income caps and are targeted at in-work households unable to buy and who will find it difficult to access social rented housing. Rents are closely linked to the relevant local housing allowance ceiling and the tenancies are the new Scottish private rental tenancy with no no-fault eviction and indeterminate length.

Scotland also offers new supply, and open-market shared-equity variants of low-cost home ownership. Scotland has its own form of help-to-buy products for new build offered by a limited number of approved builders – sales prices are capped at £200,000. Scotland's private renting reforms include a range of non-price-related regulations (e.g. HMO licensing, the right to repair, landlord registration, new judicial disputes resolution under the first-tier tribunal service and letting agent regulation) as well as new renters having an open-ended tenancy wherein termination is only allowed for finite, legitimate reasons. Local authorities can apply for rent increase limitations in designated "rent pressure zones" – although there is a high bar to reach before introducing what are still real-terms rent increases (at the time of writing this new power has not yet been used).

Source: Prof Kenneth Gibbs, CaCHE

Future housing needs

The Commission's critique of the tenure shift is of course a static picture of where we are rather than how housing affordability might change or the impact interventions might have on the housing system. For example, increasing the ability of first-time buyers to purchase would increase demand and likely have a corresponding impact on prices, which could price out some buyers. Neither does the current affordability gap account for future supply needs. Nevertheless, it provides an indication of what might be needed among current households (excluding those that are concealed – see below) to meet affordability requirements and housing aspirations.

Various studies over the years have estimated the levels of housing need. The most recent, by Professor Glen Bramley of Herriot-Watt University for the National Housing Federation and Crisis, outlined what level of new supply and in what tenure was required over the period 2016–2031.[6] This study, which involves a complex assessment of current and future needs, suggests that social housing needs to increase significantly. Its key findings were:[7]

- There is currently a backlog of housing need of 4 million in England.
- Around 3.15 million households are in housing need and are currently concealed and overcrowded households, those with serious affordability or physical health problems and people living in unsuitable accommodation.
- In addition, around 240,000 households experiencing core and wider homelessness are in housing need.
- Another 200,000 older households with suitability needs are part of the backlog.
- Finally, 410,000 households in unaffordable housing but below norm ratios, such as those living in poverty after paying their housing costs.

Assessing housing need

Calculating housing need, especially for social rented housing, is vital to ensuring that local authority housing targets are robust and deliverable within local plans. However, the Commission is concerned that the standard method for assessing minimum housing need (via the Planning Practice Guidance on "Housing and Economic Needs Assessment"[8]) is not sufficiently focused on "genuinely" affordable housing. Evidence from councils stressed the point that what the government thought was affordable was often entirely unaffordable for their lower-income residents. According to Savills, the standard method is not sufficiently focused on the most unaffordable areas: there are some very unaffordable areas with very low housing need owing to a track record of suppressed housebuilding and household formation. The Commission was told that the current guidance on the projected number of households who lack their own housing, or cannot meet their housing needs in the market, did not translate into a strict requirement for authorities' subsequent housing supply targets to incorporate a breakdown of social-rent housing needed.[9] Instead, it led to variation and confusion in assessments. The Commission was told that the entire system of evaluating housing need was unhelpful and that the current MHCLG needs assessment formula was not fit for purpose and needed to be revised.

The Bramley study concludes that build rates need to increase to around 340,000 homes a year, with social housing forming 90,000 homes alongside 30,000 intermediate rent homes and 25,000 shared ownership properties. As the table below indicates, much of the focus is on new supply in London and the South East, where affordability issues are concentrated.

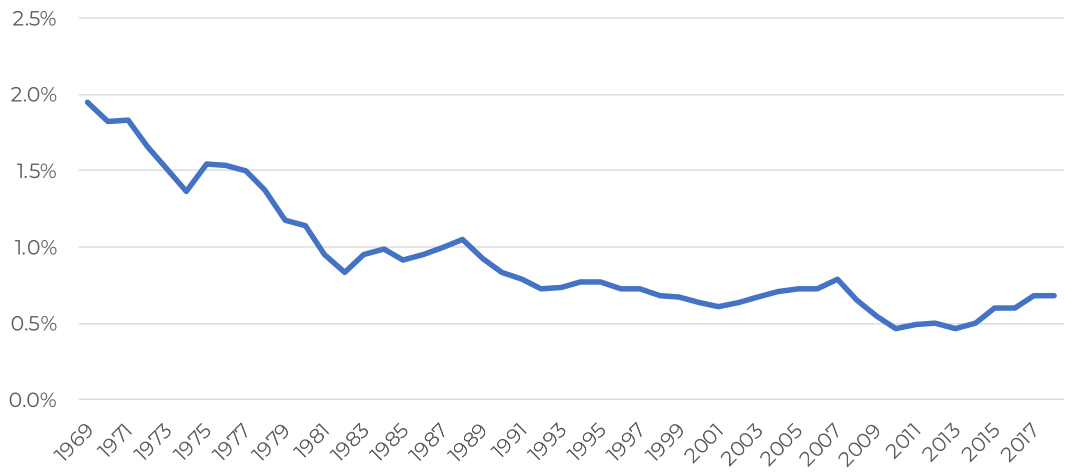
Total, social and intermediate affordable housing supply targets by English region

	Total	Social rent	Shared ownership	Intermediate
North East	6,963	828	400	1,190
Yorkshire & Humberside	18,868	1,795	1,477	2,216
North West	22,574	4,324	3,297	3,288
East Midlands	17,248	1,867	2,202	1,929
West Midlands	21,102	3,129	3,268	2,458
South West	42,171	8,340	3,980	2,540
East of England	46,104	10,999	3,851	3,143
South East	90,179	26,250	6,466	5,319
London	74,464	32,983	2,308	10,523
Total	339,673	90,515	27,249	32,606
England headlines (rounded)	**340,000**	**90,000**	**25,000**	**30,000**

Source: Bramley, G Housing Supply Requirements Across Great Britain: For Low-income Households and Homeless People (National Housing Federation & Crisis, 2019)

Meeting such an ambitious increase in new supply will not be straightforward. However, it is worth noting that England has previously built at these levels, in the 1960s, when the population was considerably smaller – and much higher levels of building per capita are common in other developed countries. The graph below shows that the increase outlined by Bramley would, as a proportion of existing stock, be lower than the 1960s and around the average for the 1970s.

Proportion of new build to existing stock



Sources: MHCLG Live tables 244 and 104

Tenant voice

The Commission did not examine in any depth the issue of tenant empowerment and involvement, which has rightly taken a higher profile since the Grenfell tragedy. However, the Commission is aware of the importance of tenant voice to reducing housing stress, as well as the benefits it can offer for landlords.

The Commission was told that in the social sector there has been a trend towards de-recognition of tenant federations and a rise in landlord-initiated arrangements (such as scrutiny panels), as well as informal structures outside of the regulatory requirements.[10] Evidence to the Commission also highlighted good practice among social landlords and tenant organisations, helped by the development of tenant engagement standards by expert bodies such as TPAS. Mention was made of recent initiatives such as the National Housing Federation's Together with Tenants project (which includes a new requirement in the Federation's Code of Governance for boards to be accountable to their tenants and residents).[11]

However, there is little hard evidence on the effectiveness of tenant participation structures and methods. A survey work by Shelter found that just a fifth (19%) of social tenants felt able to influence the decisions made by their landlord about their home.[12] The Voice for Tenants steering group claims:

"Most social housing tenants feel totally disregarded and disrespected by politicians and their landlords alike. Unless we start to take steps to address their alienation and powerlessness, there will be long-term negative consequences for society as a result."[13]

The Commission supports the government's ambitions to empower social tenants and improve the system of consumer redress.[14] It is also important to ensure that tenant representative groups have pathways to influence decisions about rents and affordability. According to the Taroe Trust, a good starting point would be to establish a national voice for tenants alongside and greater clarity on the standards and services that tenants can expect (as well as measurement of tenant satisfaction with opportunities to participate) – perhaps modelled on the Scottish Social Housing Charter.[15]

Tenant involvement in the PRS is far less advanced than in the social housing sector. This is partly down to the fact that social landlords are legally required to engage with their tenants, while private landlords are under no such duty. However, the Commission was told private renters were coming together and campaigning for change: including for improved security of tenure, rent controls and more affordable housing. The National Renters Manifesto also stated:

"Independent renter unions should be recognised, including through legal provision for collective bargaining, the right to rent strike and laws against victimisation of renters involved in union organising."[16]

Generation Rent told the Commission that a light-touch way for councils to reach out to renters was to ensure that they had a website that was easy for renters to navigate, and provided them with a comprehensible understanding of their basic rights, who at local authority level they should speak to with a problem, and what to expect.

The Commission calls on the government to consider supporting a national voice for tenants and recognition of renter unions, including legal provision for collective bargaining, the right to rent strike and laws against victimisation of renters involved in union organising.

PART SIX

Increasing supply of affordable homes

It is clear from the evidence presented to the Commission that tackling the housing affordability crisis will require a step change in the total number of homes being built, and especially social rented homes. As mentioned, supply is not meeting actual need.[1] However, the critical factor will be increasing the relative share of affordable homes to rent and buy.

The Commission was told at the round-table events in the regions that past governments were far too preoccupied with the delivery of overall housing supply numbers (net additional dwellings),[2] rather than ensuring the new homes were suitable and affordable to local people. This preoccupation is often presented in a misleading narrative around more homes equating simply to greater affordability.

A lack of supply will push up house prices, thereby making housing increasingly unaffordable. However, for affordability to be addressed through additional supply, the focus also has to be on what is being built and tailored to local need – which is why the Commission is calling for an alternative approach to defining and measuring affordability.

The problems of affordability, as outlined earlier, have worsened not simply because overall supply has failed in more and more areas to keep pace with household growth, but because social housing provision has failed to meet the growth in need. This is not a short-term problem – England has consistently failed to build enough affordable homes. Even though annual output has increased since its low point in 2002/03 (to average around 50,000 over the decade since 2008/09), the shortfall has increased year on year.

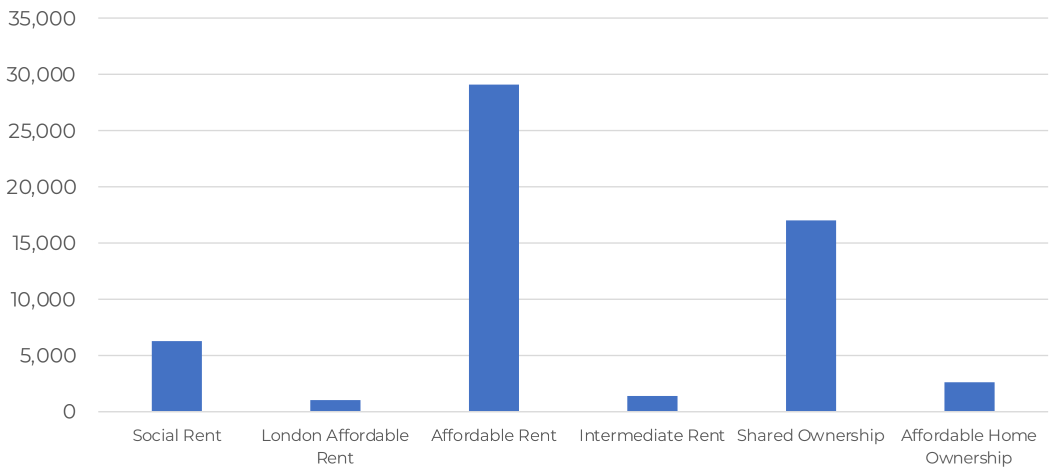
What the Commission found striking is that alongside the shortfalls in supply of affordable housing there has been a rapid and dramatic shift towards social housing at higher rents (Affordable Rent) and shared ownership products, which are out of reach for most low-income (and many mid-income) households.

The Commission was told that most councils understood the urgent need for social rented homes and the majority have included requirements in their local plan. The problem is that the homes are not being delivered. It was said that this was largely to do with lack of grant, but also because of the limits to which housing associations can cross-subsidise for social rented housing – which demands much more funding.

The chart below makes clear how low a priority social rent has become. While in 1999/00 social rent accounted for 79% of total new affordable homes, that fell to 58% in 2009/10 and shrunk to only 11% in 2018/19.

These supply challenges are often most acute in areas where economic growth is strong and where there are land shortages and wide income and wealth inequalities. The lack of social rented housing has not been evenly spread around England, with London facing a very large and growing backlog (estimated in the mayor's Strategic Housing Market Assessment at over 163,000). According to the London Tenants Federation, since 2005 average delivery rates for social rented housing in London have been below a tenth of what is needed. The GLA estimated that 40,753 social rented homes would need to be built annually for London to meet both projected need and the backlog of unmet need – more than six times current levels.[3]

Affordable house building, 2018/19



Source: MHCLG, Live Table 1000

The impact of undersupply of affordable housing, combined with the concentration on housing products which fail to meet the local housing needs of lower-income households, suggests business as usual will result in an ever-mounting backlog and growing housing stress for many households. Current build rates for sub-market rented properties are running at around 16% of net additional dwellings – which means it is likely to remain static as a proportion of properties.[4]

However, this does not factor in the loss of social housing through demolitions, right to buy and conversions to Affordable Rent – see later section on "Ending Affordable Rent". On current trends, the sector appears to be losing around 17,000 social rented homes a year, even when new-build social rented housing is factored in. Over 25 years the sector would lose over 400,000 social rented homes, with the proportion of social rented properties dropping to around 11% of the housing stock.[5]

While new supply in the short term is unlikely to have a significant effect on house prices and rents, evidence to the Commission suggests it will have positive impact over the longer term,[6] especially if a proportion of the new homes are genuinely affordable.[7] Without the affordable homes, prices would fall only marginally as household growth boosts demand and more households are locked into the PRS.[8]

The Commission recommends that the government seeks a step change in affordable housing supply in line with the latest assessments of housing need. On current best evidence, this would equate to an increase to about 90,000 social rented homes a year (forming part of the government's overall housing target of 300,000 homes a year).

The case for social housing

The evidence presented to the Commission was unequivocal: the country needs more homes (and many more affordable homes) and more of the right type of homes in the right places to meet household growth. The critical nuance to this is that we also need many more social rented homes. Without them, improving housing affordability for millions of struggling renters will be an impossible task. As evidence from the Building Societies Association put it:

"It is important therefore that local authorities and housing associations are able to increase their contributions to housing supply, likely focusing on areas where the house builders do not, such as social housing and build-to-rent, and using modern methods of construction which can be suitable for building at higher volumes and tap into different forms of skilled labour and materials to the traditional house building model in the UK."

Research and modelling by MHCLG showed that additional social housing supply reduced the numbers in housing need by three times as much as an increase in private housing supply. The model suggests that for every 100 social homes supplied, housing need would fall by 63 households in the medium term.[9]

The social value of affordable homes

Social landlords and the private sector both called for greater understanding and sensitivity to changes in housing needs and housing markets, particularly regarding levels of housing stress and the need for mixed communities.

The Commission was also told that investors and the Treasury needed to more fully appreciate the long-term cost benefits of investing in social and affordable housing, especially "invest to save" in providing affordable housing for those on low incomes. Hyde Group's sponsored research on the value of a social tenancy, for instance, calculates that its 36,000 social tenancies contribute at least £607 million a year to the UK economy – or £16,906 per home.[10]

Total social value of a social tenancy by key stakeholder

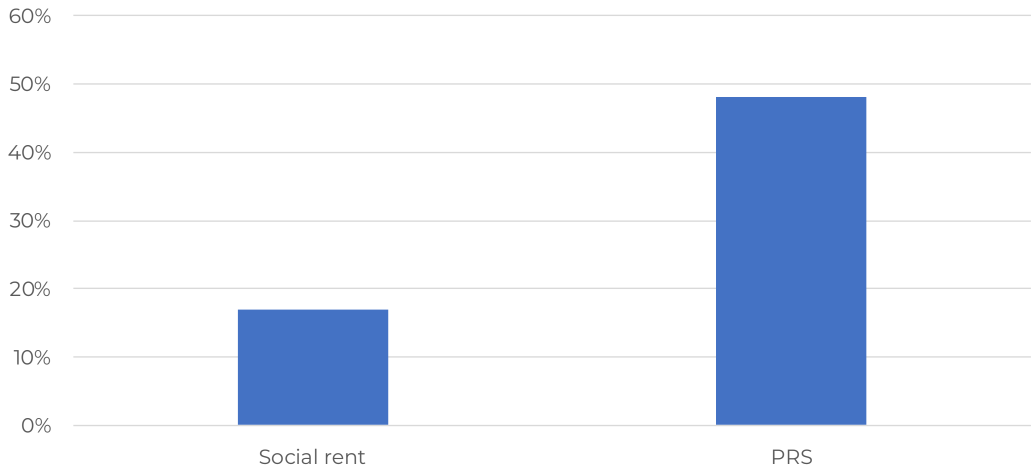
Economy	£172m	• Additional economic productivity and activity by enabling people to get back into work, evaluated at £20,281 per FTE, plus £12,150 of local economic activity. 8,337 adults working age back into work: £149m • Reduction from presenteeism levels in the situation without social housing ranging from 20% (private rental) to 25% (the other two categories) to a range of 11% ("good") to 30% ("crisis") in the social housing situations. Presenteeism applies to people in work, but for whom their outside circumstances lead them to be in work but not focused on the task for part of the time: £12m • Reduction in absenteeism from an average of 20 days a year without social housing to 11 days a year with social housing: £11m
NHS	£93m	• Variety of elements from GP attendances, falls for the elderly, childhood asthma through damp living conditions. A&E visits and mental health, together with drug and alcohol elements.
Police and justice	£55m	• Call outs with no arrest: £13m • Costs relating to being victims of crime at £10,276 per event, with 7,443 fewer incidents: £42m
Local authority	£52m	• Moving 6,465 residents for whom the local authority is paying for temporary accommodation: £41m • Helping elderly people stay independent for longer and defer move into residential care: £10m per year • Reduced level of children on Child Protection register: £1m
DWP	£14m	• Reduction in universal credit claims as people get back into work
Education	£10m	• Cost of being out of education of around £10k per child per year int terms of long-term effect spread over the eight years of mainstream schooling post seven years old. Reduced likelihood if being out of education
Banks and creditors	£3m	• Problem debt.
Fire service	£2m	• Reduced risk of domestic fires.

NB: Based on the calculated social value per Hyde tenancy.

Source: The Value of Social Tenancy: A socio-economic evaluation based on Hyde's housing portfolio' (2018)

As mentioned, social rented homes at a lower cost to poorer tenants has the social benefit of tackling poverty and homelessness. Not only are poverty rates after housing costs much lower in social rented homes but reducing the rent burden for lower income households also frees up disposable income for other goods and services.[11]

Poverty rates: percentage increase between before and after housing costs rates



Source: AHC analysis of DWP, Households below average income: 1994/95 to 2017/18

Additional social housing is likely to generate additional extra economic activity and is baked into HMT assumptions about the multiplier effects of different fiscal measures. As the table below highlights, there is a greater multiplier for welfare measures, which are more targeted than raising personal tax allowances.

Estimates of fiscal multipliers

Change in VAT rate	0.35
Changes in the personal tax allowance and National Insurance Contributions (NICs)	0.3
AME welfare measures 0.6 Implied Resource Departmental Expenditure Limits (RDEL)	0.6
Implied Capital Departmental Expenditure Limits *[housing for example]*	1.0

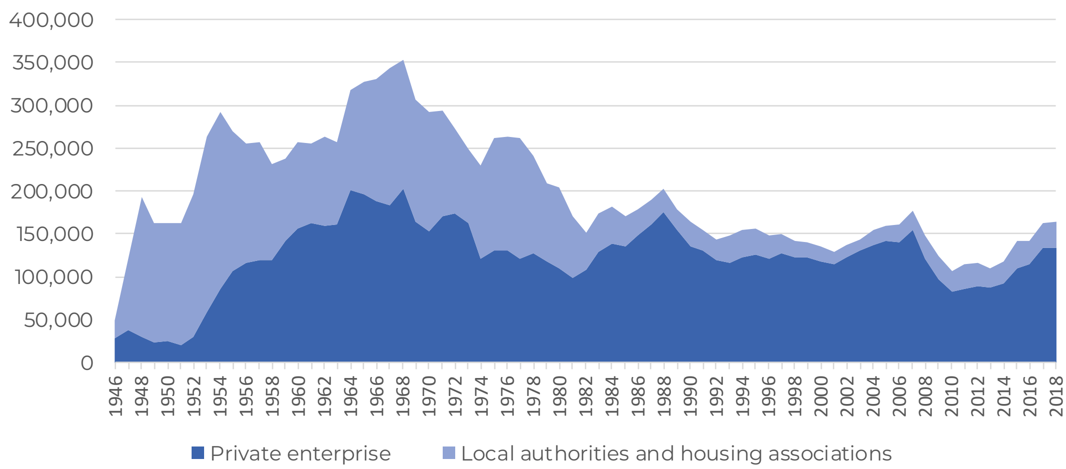
Source: HM Treasury Budget 2010

Official appraisals of policies also assess the relative benefits that accrue to households on different incomes. Using the Treasury's *Green Book* (which provides guidance on how to evaluate policies, programmes and projects), the financial benefits experienced by lower-income households are shown to have a higher social value than the same benefit for those further up the income distribution (based on the economic principle of diminishing marginal utility of income).[12] As such, reducing the rents by building more social housing supported through general taxation will have a positive distributional impact, given that the average tax payer is on a higher income than the average social housing tenant.

Wider benefits of social housing

There are wider benefits of social rented homes to consider. More social rented housing, for example, can help boost the overall supply of housing and spur private development. However, we have only built at rates approaching 300,000 homes a year when social housing providers played a significant role. Since the 1980s the big gap has been the absence of social housing, with private housing remaining fairly stable since then at around 135,000 homes a year.

Housing completions by private enterprise and social landlords, England



Source: MHCLG Live Table 244. Note: table measures direct housing construction, not final tenure.

The Commission accepts that an increase of 100 social rented homes will not always result in 100 additional homes, because new supply may crowd out homes built by the private sector. Additionality will depend on the location of house building and tenure type.

The Commission was also told that house building was a cyclical industry and governments of all political persuasions had sought to increase the supply of social housing in a downturn as a counter-cyclical measure, as was the case after the 2008 financial crisis.

There is evidence of a positive relationship between social housing supply and overall completions, especially in high and, to a lesser extent, intermediate demand areas.[13] Indeed, government assumptions have suggested that the net increase in supply from investing in affordable housing is equivalent to 50% of the number of affordable homes built.[14]

The Letwin Review on the very slow rate of development on major sites demonstrated that build-out rates greatly improved if the development was not of a single product – homes for sale to those on middle incomes and above – but also comprised new affordable homes of different kinds.[15]

As mentioned, the economic benefits of additional housing are also derived from improvements in the functioning of the labour market.[16] Professor Duncan Maclennan told the Commission that his research showed strong positive productivity effects for the economy from meeting housing need and building affordable homes, not least from saved travel-to-work times and deeper labour pools.[17] He reported that the housing effects in the economy were underplayed and that governments needed to think differently about metropolitan housing systems and how they shaped growth and productivity.

Surveys by the Centre for Social Justice and others have highlighted how shortages of affordable homes have had detrimental effects on local labour markets – see section on "Workforce Housing". Investment in new social housing also boosts construction activity. In addition, there are net gains to the Treasury from higher tax yields and reduced welfare spending from the additional economic activity and positive employment effects of investing in new social housing.

As tenants move from the PRS to social housing, the state will also make benefit savings from lower housing benefit payments. As social housing rents are lower than private rents, the amount of housing benefit claimed will be reduced. This "benefit to bricks" conversion can lead to significant savings for the state, albeit over a longer period.[18] New homes will also result in additional council tax receipts from providing social housing. On each additional property council tax is levied, and thus by building more homes more council tax will be gained.

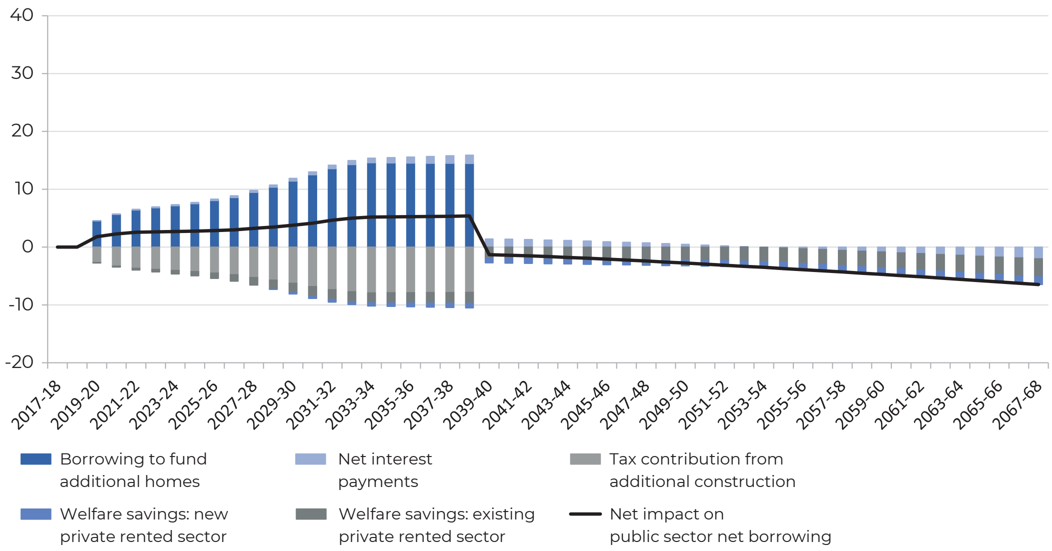
While there are considerable benefits to building new social housing, it is obviously not cost-free. The levels of subsidy required to build new social housing are significant, especially if they are to remain affordable in perpetuity.[19] Some of these costs will be paid for through future rents, cross-subsidy from private sales and section 106 contributions. Nevertheless, as the withdrawal of the state from meaningful subsidy for social housing has demonstrated, without grant new genuinely affordable homes will be relatively small in number.

Funding an increase in all housing and especially social housing will therefore require an increase in grant levels. A detailed assessment of the likely additional funding requirement for the National Housing Federation and Crisis put the total capital investment at around £7.5 billion a year to build at this scale.[20] The assessment of need also includes investment in shared ownership and intermediate rent products. Further calculations by the National Housing Federation suggest that overall investment would total £12.8 billion in today's prices.[21] This would be a significant spending commitment, from 1.9% to around 3.6% of total government expenditure. This would see spending on housing return to levels slightly above those in 2010 (3% of total government expenditure) and below investment levels in the mid-1980s.[22]

While investment levels are high, a financial appraisal by Capital Economics for Shelter showed that building social housing requires government to borrow in the short term, but in the longer term the fiscal benefits outweigh the upfront costs.[23]

This contrasts sharply with investment in the PRS, where the revenue subsidy (via housing benefit) is not reinvested as it is by not-for-profit social landlords and where the cost to Exchequer rises in line with earnings over time.[24] According to Capital Economics, the rising proportion of housing benefit claimants living in the PRS has cost nearly £14 billion over the past decade alone.

Impact on annual public-sector net borrowing in the government grant-funded scenario (£ billion, 2017–18 prices)



Source: Capital Economics, Increasing investment in social housing (2019)

Based on the assumptions outlined in this section, the Commission's headline analysis shows that over a 30-year period, investment in each new social rented home delivers £45,000 of benefit. Scaled up to 90,000 social rented properties, new social rented homes would deliver £3.9 billion in net benefits over 30 years.

Quantified impact of social housing for a 90,000 social housing build programme (present value over 30 years)

	Per social unit	90k homes
Net government costs	**£42,000**	**£3,817m**
Grant funding	£82,000	£7,396m
Housing benefit spending	-£34,000	-£3,039m
Income tax, NIC and CT	-£6,000	-£539m
Net economic benefits	**£87,000**	**£7,752m**
Increasing housing supply	£30,000	£2,665m
Distributional benefits	£29,000	£2,567m
GVA of construction activity	£28,000	£2,520m
Impact (net benefit)	**£45,000**	**£3,935m**

Note: See annex for details.

The Commission recognises that there are trade-offs between achieving high housing numbers overall and creating sufficient homes for those on lower incomes. We recommend that in making difficult spending choices, priority should be given to those lower-income households for whom housing provision has declined dramatically – i.e. more social rented housing.

The Commission recommends that in order to deliver the necessary increase in the supply of social homes, bearing in mind the necessary expense for improved safety measures and decarbonisation, the government must increase the level of capital investment in affordable housing to at least the level prevailing in 2010. Such investment brings additional economic and social benefits.

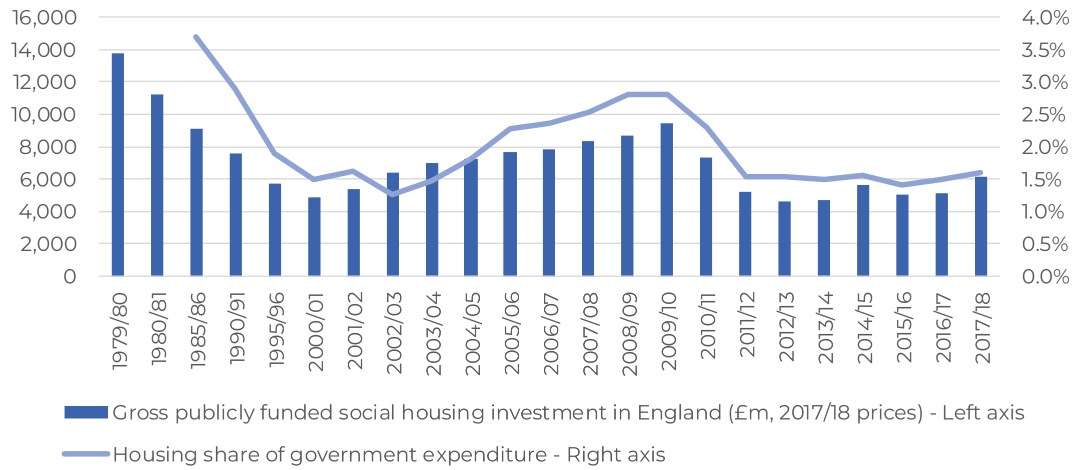
Less and less capital subsidy

While in real terms government spending on new social rented housing has been in decline, development costs – especially in high-demand areas – have rocketed. This equates to less social housing per pound of grant. According to London-based Network Homes, each subsidised affordable home today costs the housing association on average over £250,000 from loans, reserves and income from sales, compared with less than £100,000 just seven years ago. The main reason is the loss of grant (cut by two-thirds), but also because of higher build costs. Network Homes, for example, told the Commission its average cost to build each new home increased 42%, or £85,000 in less than 10 years.[25]

However, capital grant funding has declined rapidly in recent years.[26] Although spending under the affordable homes programme is set to increase from 2021, subsidy levels in real terms are still below what they were before 2010. In real terms, overall capital investment in housing has declined to an average of £5.2 billion over the past seven years, whereas it was £8.1 billion for the seven years preceding. Although spending has now increased to £6 billion, the picture is starker when comparing investment in 1979/80, when social housing investment in England totalled close to £14 billion.[27] The Commission was reminded that in the early 1990s, not only was the housing subsidy and the grant per unit much higher, it meant that nine in 10 affordable homes built were social rented homes.

The table below highlights the extent to which capital investment in social housing have declined sharply in the 2010s. That decline has been compensated for to varying degrees by a mix of direct investment, public and private borrowing, discounted land, planning gain, cross-subsidy against market sales and joint ventures with the private sector. While this has helped sustain a limited supply of new social rented and lower-end intermediate homes, it has clearly failed to match what is needed.

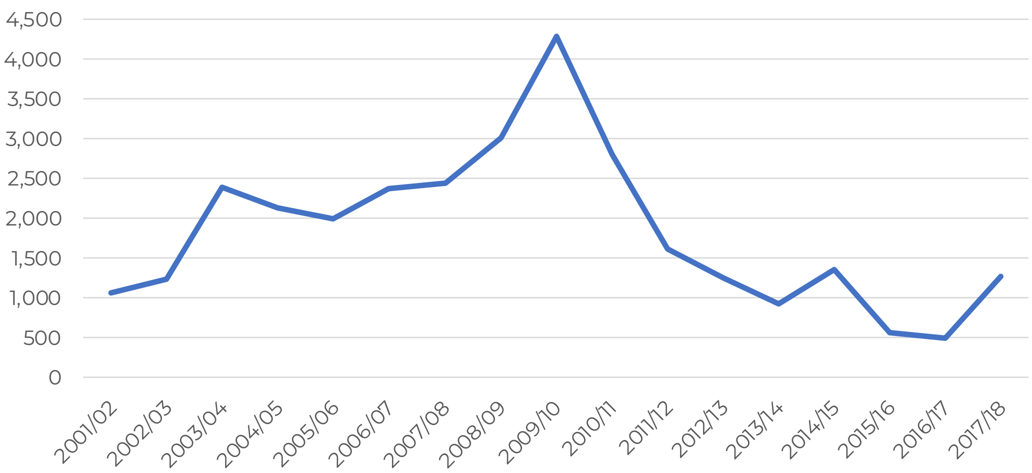
Government investment in housing and social housing



Source: CIH Housing Review (2019)

There are limits as to what housing associations and councils can do to compensate for such a large and sustained loss of grant subsidy. As the Commission was told by several social landlords, the bottom line is that "subsidised housing needs subsidy". Without it more low-income households, who would have been offered social housing, are driven into the PRS.

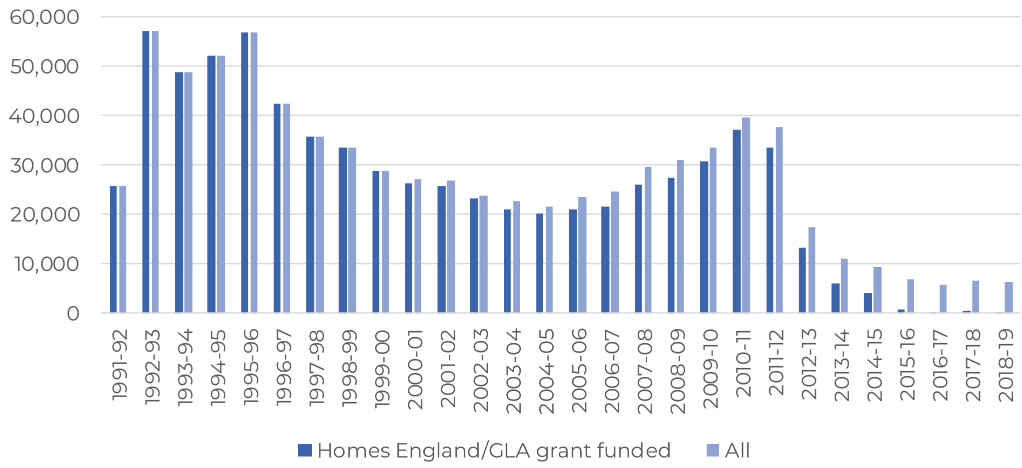
Homes England Affordable Homes Programme (and former HCA and Housing Corporation programmes) (£ million)



Source: CIH Housing Review (2019); latter years include GLA investment.

The number of social rented homes delivered through government capital grant (excluding homes provided through section 106 agreements) has collapsed from 30,000 after the financial crisis to well under 1,000 in 2018-19. As the graph demonstrates, even a decade after the heyday of council house building, around 50,000 social rented homes were being built.

Social rent completions



Source: MHCLG Live table 1000

The Commission welcomes the recent short-term increase in capital grant and the policy changes to support councils building again. While the increase does not represent a step change, it is a move in the right direction – and at a time of low interest rates, makes economic and financial sense.

Financing affordable housing

An important first step in addressing the imbalances in the housing system would be for government to acknowledge the way housing policy and funding has become overly reliant on revenue subsidy. Around three quarters of support for tenants and providers is spent on housing benefit - a third is claimed by people in the PRS.[28]

Over the five years to 2020/21, around £8bn per year of support through grants, loans and guarantees will be directed to private housing, with over half going specifically to support home ownership. In addition, home owners and private landlords benefit from tax relief (net tax relief for home owners was some £29 billion).[29]

Funding per home under the help to buy schemes, for example, has averaged between £123,000 and £380,000, compared with grant funding per Affordable Rent home of £26,000.[30] Evidence from the CIH showed that despite some additional funding in the last one-year spending round (2019-20), still only 21% of government investment was directed into affordable housing.

This bias in spending means social landlords are ever more reliant on their rental income (with rents on general needs housing accounting for over 80% of turnover for the social housing sector), borrowing and market sales to meet significant upfront costs far in excess of grant levels – when they are available.

The cross-subsidy model – whereby housing associations raise finance for a range of affordable homes paid for through the profit and portfolio elements of private sales

– has been severely stretched by the recent downturn in market activity, especially in London, where market sales have stagnated and costs have risen sharply. Large housing associations in London have suggested the system is at breaking point.[31] Certainly, the level of unsold housing association homes is at a 10-year low,[32] which creates cash-flow pressures and feeds through to less available funding for social rented housing.

However, other associations operating outside of London claim that cross-subsidy is still effective, especially for shared ownership. The Regulator of Social Housing is forecasting market sales to nearly double by 2023 to £7.9 billion.[33]

The recent £3 billion Affordable Homes Guarantees Scheme (Spring Statement 2019), which underwrites borrowing by housing associations, was broadly welcomed. Although there is some scepticism as to how many of the new homes being funded under the scheme will be genuinely affordable, it does reduce borrowing costs and increase borrowing capacity.

Although the Commission is aware of competing financial pressures on government finances, the overall public spending envelope has arguably enough scope to increase funding for both stock improvement and new genuinely affordable homes. This has been the case in Wales, where a much higher priority in the devolved housing budget has been given over to social rented housing.

Affordable housing in Wales

The Welsh government's national Strategy "Prosperity for All" provides for 20,000 new affordable homes between 2016 and 21, 65% from social landlords. This commitment is supported by higher grant rates than in England, especially for social rent, as well as a unique revenue subsidy to housing associations as an alternative to capital grant. In order to meet the ambitious build target (which is nearly double the completion rate of the previous five years) and speed up delivery, the Welsh government is following through recommendations of the Independent Review of Affordable Housing Supply (2019).

These include: increasing long-term deals on funding and rents; consolidating funding pots to support affordable housing; allowing councils to access housing grant, to build more council houses at pace and scale; improving local housing market assessments, to better capture affordability; adopting higher eco-standards; and requiring local development plans to support sites made up of at least 50% affordable housing. Previous reforms include removal of the HRA borrowing cap, an innovative rent-to-own scheme for private renters and shared ownership products. The Welsh government also stresses the benefits of partnership working with social landlords, which it claims allows more sites to be brought forward. Wales has scrapped the RTB and has no Affordable Rent model. Social landlords are also responsible for setting their own rents within a target band.

Private finance
The contraction in public subsidy has made housing associations ever more reliant on private finance, especially for new development. Around 40% of all affordable homes completed were funded from section 106 without grant in 2016 (and prior to 2012 it was below 10%). Today it is around 50%, with Affordable Rent accounting for half of the total.[34]

Private finance (from the banks and capital markets) has been a driver of growth in the housing association sector since the tailing off of the large-scale voluntary transfer programme in the 2000s. The Commission was told that in total, private finance for housing associations in England alone was now worth £77 billion.[35] A growing source of private funding since the financial crisis in 2008 has been from the debt capital markets (and from aggregators like The Housing Finance Corporation) but new bank lending still plays an important role.[36]

There are different views as to whether housing associations can further increase their borrowing from the capital markets. Some institutional investors see opportunities for growth in shared ownership, housing association mergers, and debt rescheduling and write-offs. Others highlight the limited number of housing association which are actively developing at scale, and warn that lending practices could change dramatically if interest rates rise.

It was mentioned that housing associations could sell the retained equity in their shared ownership homes to institutional investors (worth an estimated £6 billion). According to Savills, buying back equity from tenants (currently restricted to households in financial difficulties) could support new development and help older tenants who wish to downsize.[37] However, the Commission notes the potential for reputational risk this might involve for the housing association sector.

Together Housing told the Commission that the government should consider giving social landlords associations greater flexibility in terms of the Recycled Capital Grant Fund (RCGF) and Disposals Proceeds Fund (DPF). These funds were created to capture previous government grant in existing homes, which are sold under right to buy and the right to acquire. It was noted to the Commission that:

"Currently there are time limits in which both RCGF and DPF funding can be used and its use is also restricted to certain activities. Greater flexibility in terms of the use of capital available and the time limits involved would assist in the development process to deliver more homes."[38]

However, the Commission was also told that the RCGF and DPF were not evenly distributed by any means – in some places it unlocks lots of capacity; in others it does very little.

The overriding view presented to the Commission from housing associations was that private funding for new development would remain extremely tight in the coming years, owing in part to the expected costs of fire safety compliance and meeting the government's low-carbon homes targets.[39] It was said that the challenges ahead regarding the existing stock were now exercising the minds of housing association boards, and that some associations were cautious about extending their levels of borrowing without government guarantees.

However, the Commission was also told that the financial climate was still conducive to borrowing and that social landlords were well placed to leverage match funding from institutional investors. Reference was made to the growing interest from fund management business and pension funds in mid-market rent models, such as the PfP Capital partnership with the Scottish government, which benefit from index-linked returns derived from the rental income.

The Commission calls on the government to reduce the reliance of social landlords on the cross-subsidy development model through higher levels of public investment. Greater support should also be given to the development of new rent models for low income households, such as living rent and flexible rent.

Student housing

The purpose-built student property market is estimated to be worth £50 billion[40] and delivers relatively high returns. However, the recent rapid growth in student numbers has intensified affordability problems in many university towns. According to NUS housing surveys in 2018, average rent levels now account for around three-quarters of student loans, compared with 58% in 2012; 44% of students struggle to keep up with the rent; and 45% say the cost of accommodation affects their mental health and well-being. In addition to new-build accommodation, concerns were expressed to the Commission that private landlords seeking to rent to students were pricing out local first-time buyers.

The exclusion of student housing from section 106 requirement (and thereby a loss of affordable homes which otherwise would have been built) and strong interest from overseas investors has incentivised development. However, with a flattening of future student numbers, the market appears to be in transition. The government reported that many student housing developments were on hold, leaving thousands of undergraduates living in temporary accommodation.

The Commission recommends the government undertake a review of the impacts of student housing, including the effects on housing affordability for local communities.

Overseas property investment

There is no definitive data on residential properties bought by overseas investors, but what evidence there is suggests that the majority buy in London (often in "prime" areas). The latest research commissioned by the GLA suggests 13% of new-build properties sold in the capital between 2014 and 2016 went to overseas buyers, mainly from south-east Asia (with around a third in prime areas).[41] Savills estimated that 7% of residential purchases in Greater London in 2013/14 were made by buyers from overseas.[42] How many were buying to live in London for the long term, and how many were property speculators or acquiring a second home, is unclear. According to evidence to the Commission from Knight Frank (Urban Futures):

"Following the 2008 financial crisis, housing increasingly shifted from a relatively straightforward part of the economic mix to a complex investment vehicle, attracting huge sums from funds and corporations…. investors bought up 'safe haven' properties in cities like London and New York. The availability of cheap debt exacerbated this, enabling individuals to become highly leveraged in order to invest."

It is also difficult to discern trends since non-housing factors such as the relative purchasing power of foreign currencies and tax regimes can influence behaviour. According to some estate agents, recent tax changes have in fact led to a decline in foreign investment in the buy-to-let market. Others suggest an increase, especially among EU buyers. Hamptons International's survey showed that 57% of homes bought in prime central London in the second half of 2018 were purchased by overseas buyers, the highest level since 2012.[43]

We note the government's intention to add an additional 3% stamp duty when properties are acquired by a buyer based overseas. This comes at a time when many of these buyers are benefiting from a substantial discount from the weaker pound (particularly in relation to the US dollar). This increases their purchasing power. However, it should be noted that all things being equal, repatriated yields will also be reduced because of the weaker pound. Although the attractiveness of investing in housing is likely to be affected if the surcharge is increased, it remains unclear what the scale of the impact might be.

There is of course the potential for unfettered overseas investment in housing to increase price volatility and create speculative housing bubbles. Some London boroughs, such as Enfield, have reacted to this by banning overseas investment in new schemes where the council is the master developer.[44] However, it should also be noted that there has been substantial overseas investment in the UK property market, some of which unlocks the provision of affordable housing. Furthermore, new affordable housing is often funded by cross-subsidy from sales to international investors via the global bond markets. Recent survey work by the LSE suggests that while some Londoners have been excluded by foreign investment from accessing housing, this has been more than offset by investment increasing supply.[45]

However, the Commission is concerned about the extent to which overseas buyers may unbalance housing markets and undermine investment in affordable housing. There is a risk that development could become overly geared towards upmarket investments, pushing up prices and using up limited land that could be made available for affordable housing.

Analysis by the Smith Institute suggests that although the impact of overseas buyers in London is often exaggerated by the media, it could undermine efforts to provide more affordable homes and increase price volatility.[46]

The frustration here is not only about replacing UK owner-occupiers with overseas investors, but that the use of off-plan sales (purchases made before the property is built) favour foreign buyers over local first-time buyers, who rely on a conventional mortgage.[47] According to some studies there is a negative effect on affordability, although the evidence is localised.[48]

Nevertheless, it is unclear what the overall ripple effects are on affordable housing more generally. How many of the overseas buyers' homes are unoccupied? Evidence from the LSE suggests that 70% of purchases by overseas investor are for letting and less than 1% remain empty. Most empty new properties, or those with very low occupancy rates, were bought as second homes to rent (and mostly by UK residents).[49] However, again the data is sketchy and much of the evidence around "buy-to-leave" investment is anecdotal.[50]

The Commission calls for the government to undertake a review of overseas property investment and the impact of online holiday lettings such as Airbnb, paying particular regarding to the impacts on affordability.

PART SEVEN

Land and planning

Both social landlords and private developers cite the lack of access to suitable land for development as a constraint on increasing supply. Evidence to the Commission also highlighted the spiralling cost of land (between 20-35% of total build costs), slow build-out rates, land banking and the way in which the planning system favoured land owners, land agents and developers.

Recent reviews, such as the Letwin review of build-out and land allocation,[1] have drawn attention to these concerns and argued that land needs to be brought into development faster and at significantly lower values to provide more affordable housing. However, the Commission is aware that identifying enough land for housing development is challenging in many areas, and that some local authorities lack a five-year land supply.[2] The GLA told the Commission it was adopting a more proactive and interventionist approach to bringing forward land for affordable housing (under its new Land Fund and "fast-track route", which prioritises planning for developments that provide at least 35% affordable homes without subsidy).[3]

The number of units granted planning permission increased rapidly after the financial crash,[4] but the extent to which it translates into actual building starts varies across the country. Evidence from councils suggests that part of the problem remains the "absorption rate" – when homes can be sold into the local market without materially disturbing the market price. Recent studies have suggested the build-out period on large sites is on average around 15 years.[5] The Commission was told that sales rates per site per week have not changed in decades.

The planning function for most councils has also been hit by austerity. Severe budget cuts have had damaging effects on staffing and morale in planning authorities, weakening the ability of some councils to reach favourable section 106 agreements.[6] Parliament's Housing, Communities & Local Government Committee concluded that "many local authorities are no match for developers and their lawyers".[7] According to the Raynsford planning review, the root of the problem is:

"Local government planning departments are under growing pressure to perform, but many report that they do not have sufficient resources, skills and capacity. Local plans have downgraded or removed policy on affordable homes, climate change and social inclusion."[8]

A duty to plan for affordable homes

The Raynsford *Review of Planning in England* (2018) called for a new duty on local planning authorities to plan for decent and genuinely affordable homes. Councils already have a statutory duty to provide housing services, including on homelessness. However, there is no legal obligation to plan for the full range of housing needs expected in an area. The review suggests the new duty might be achieved by super-regional agreements for growth points, where that is the most sustainable outcome. Under the duty, planning authorities would have particular regard to ensuring that housing is affordable to those on average or below-average household incomes. The review concludes that local plans would have a much clearer and unequivocal purpose to provide affordable housing.

Mention was also made of designated housing planning zones, such as the Mayor of London's housing zones, which seek to maximise affordable housing provision.[9] While zoning can help join up housing and regeneration, and fast track affordable housing schemes, the Commission was also told that it was important to ensure additionality and that new homes were part of genuinely mixed communities.

The Commission urges the government, in its forthcoming planning white paper, to focus on reforms to improve the supply of affordable homes. These should include: returning permitted development rights powers back to councils, support for alternative approaches to capturing "hope value", and ensuring planning authorities are adequately resourced.

Capturing hope value

The availability and price of land and the way it is valued and regulated under the plan-led system underpins the policy discussion about how housing, and affordable housing, is costed and delivered. According to Shelter, land owners and developers are making significant windfall profits from land sales and have too much influence over how much affordable housing gets built.[10]

Others claim that the volume house builders have benefited handsomely from the rise in land values. Evidence from Peter Bill, based on company reports and accounts, showed that house prices from the top seven volume house builders had risen by 47% from 2012 to 17, and that the five-year uplift was 55%.

Analysis by the Centre for Progressive Policy shows that land owners in England had secured more than £13 billion in pre-tax profit in 2016/17, an increase of £4 billion since 2014/15. The Centre claimed that more could be done to capture the uplift, in order to support an increase in affordable housing.[11] The CPRE, meanwhile, told the Commission:

"For too long, land has been treated primarily as a financial asset, with decades of rising house prices entrenching expectations of future increases… Soaring land values have been baked into the system in part by precedent, but also by current legislation governing compensation arrangements in cases of compulsory purchase."[12]

Land prices have continued to rise faster than house prices, although there are wide variations across England in terms of place and type of use. However, what counts in terms of development costs for affordable homes is the value of the land when residential planning permission is granted.

The gap between the agricultural value and the residential value reflects the market price for the homes that can be delivered on the land (less the construction costs and profit margins). That gap is stark. As the table below shows, agricultural land can increase in value with planning permission by more than 300 times. Obviously, such a huge uplift in value compromises the viability of including affordable housing.

Land values by land use (per hectare)

	Agricultural	Industrial	Residential
East	£24,000	£675,000	£2,600,000
East Midlands	£23,000	£450,000	£1,100,000
London	-	£2,733,000	£29,100,000
North East	£16,000	£180,000	£1,000,000
North West	£22,000	£400,000	£1,400,000
South East	£22,000	£1,100,000	£3,600,000
South West	£21,000	£430,000	£2,000,000
West Midlands	£24,000	£500,000	£1,500,000
Yorkshire and the Humber	£21,000	£375,000	£1,400,000
England (mean)	£21,000	£760,000	£6,900,000
England excluding London (mean)	–	£514,000	£2,100,000

Source: DCLG Land Value Estimates for Policy Appraisal (2015)

Past initiatives to tackle high land values demonstrate the tension between reducing values and the availability of land. The 1947 Town & Country Planning Act sought to hold down land values and allow the state to acquire land at an equitable level. The preferred method of doing so was to introduce a development charge set at 100% of the increase between the existing use value and the price of land when planning permission was granted. The intention was that builders would buy the land at existing use value and then pay the charge, with profits coming from house building rather than land values. However, without the profit motive, land owners had little incentive to sell the land. This meant that the development tax had the unintended consequence of reducing the availability of land. This, unsurprisingly, was unpopular with land owners and was scrapped in 1953.[13]

A betterment levy (charged at 40% of the uplift in value from permission being granted) was introduced in 1967, a development gains tax followed in 1973 and a development land tax (initially set at 80%) three years later, before being scrapped in 1985.[14] These taxes suffered from the same initial problem: that there was little incentive to sell the land if taxes were set too high. The prospect of the taxes being reformed or repealed also acted as a further incentive for landlords to hold tight until the tax environment was more favourable. There were also administrative problems because of the difficulty in assessing the true value of the land before and after development.

This brief history of betterment taxes in Britain is a cautionary warning of the potential negative consequences of introducing a centrally determined land value capture tax. Such an approach would also have to ensure the viability of a sites with low or negative land values, which could hinder development.

Compulsory purchase orders

The Commission was told that one way of addressing land owners sitting on undeveloped land and acquiring land at an "equitable" rate was to make more use of compulsory purchase orders (CPOs). It was said that reform in this area was important, although CPO is only a part of the bigger issue around site values and viability in general – discussed in later sections.

Post-war governments have introduced legislation to do this but have often faced stiff opposition. Under the current system (shaped by the 1961 Land Compensation Act and related case law) the land owner is entitled to something approximating the residential value of land, thereby capturing much of the "hope value").[15] It was proposed to the Commission that the Act should be reformed to enable the state to CPO land at closer to the existing use value. Although this would have less impact in low-value areas and on smaller sites, the evidence suggests it would release more land for affordable housing in higher-value areas.

The Act could be amended so that no account is taken of planning permission in designated areas, to support the delivery of affordable housing and the required infrastructure. However, such an approach, whereby councils or a public agency buy the land and control development (thereby ensuring a higher proportion of affordable homes), is likely to be best suited to large-scale developments. There are also obstacles to overcome, not least the human rights (the right to property) of land owners.[16] The Commission was also told that if the council remains both plan maker and decision taker there is a risk of the state substituting sites it has acquired at sub-market prices for those of the market.

The Commission observed the approach taken in some EU countries, featured in the

Letwin review.[17] The review concentrated on large sites (more than 1,500 homes) and proposed that as part of the designation there would be minimum requirements on affordable housing products. By insisting on diversity of supply, Letwin envisaged that absorption rates – and therefore buildout rates – could be accelerated. To help subsidise the affordable housing Letwin suggested capping the residual land values at around 10 times current use value.[18]

Letwin proposed two models: in the first, the council establishes a local development company and either purchases the land at a reduced rate or via a CPO. The company secures private finance, paid back when the land is sold. Any surplus would be invested in the site or used for wider community benefit. According to Professor Crook, the company could raise debt and equity funding to finance the infrastructure, selling on the serviced land to developers, who in turn would be obliged to provide affordable housing. This approach, says Crook, seeks to: "reduce the costs of creating new affordable homes, but without the historical unfairness of the dual market of land that characterised the 1950s".[19]

The Letwin review's second option is for the council to designate an area within its local plan, voluntarily purchased at a reduced rate or, failing that, via CPO. The council would issue a tender for an infrastructure development company to buy the land from the local authority. The land would then be sold at the purchase price, under the condition that it deliver the housing and infrastructure set out in the master plan. Any surpluses the company made would go to the council.

Land value capture in Europe

Germany operates a land readjustment system where areas are assigned for strategic purposes. Land owners are required to pool their land with the values frozen at their existing value. If the land owners cannot develop, the municipality acquires and pools the land. It then resells serviced sites, having deducted the land for public infrastructure, such as streets, green space and schools. The process is generally undertaken on a voluntary basis but is backed up by CPO powers. The infrastructure is financed by a loan and recovered by the sale of the plots. The return of the land is based on the size or value of the original land holdings. Redistribution of land occurs where the land is of similar value, with the land owner receiving a similar proportion (if they held 10% of the original land they receive 10% of the newly available land not used for infrastructure purposes). The municipality also takes a capped share of that land. If it is redistributed on the basis of value, the land owner has to pay for the difference between the original and the new value, with the municipality using that uplift to pay for the infrastructure. The ownership structure is not affected but land is brought forward with infrastructure in place.[20]

The Dutch experience is also instructive. In the past the Netherlands had an active land use planning system, with municipal land companies owning a large proportion of the land. Land was bought and sold by municipalities, which serviced land, built infrastructure and then sold it on. Municipalities could zone an area, allowing pre-emptive rights to facilitate land assembly. This model started to break down as a result of greater emphasis on private house building pushing up land prices, new rules allowing authorities to stipulate the level of social housing (prior to that it could only do so when selling land and requiring the purchaser to provide affordable housing), and the financial risks exposed by the financial crash – not least issues around risk sharing. In its place, public-private vehicles were established, largely in the form of limited companies, to which land owners sell their land. The land is pooled, the company puts the infrastructure in place and then returns land to the developers at the agreed location and price. In some cases land owners sell the land to the municipality, which acts as the pooling agent.[21]

The German and Dutch experiences show how land could be brought forward at lower cost to deliver more affordable homes and support "smart growth".[22] They also ensure that sites are developed on time (curtailing the ability of land owners to hold out for a higher return)[23] and disallow free rider issues regarding the payment for infrastructure or attempts to recoup costs from owners after the development has taken place.[24]

To reduce high land costs and the excessive gains achievable from the receipt of planning consents, the Commission urges the government to press ahead with the Letwin review recommendations for acquisitions and land value capture through new development corporations established by councils. We recommend the definition of large sites as over 500 homes.

Planning gain

Reforming the system of land value capture (LVC) could make a difference to the provision of affordable housing, especially on large sites. As mentioned, land owners and developers continue to retain a large share of the land value uplift created by the planning system. The evidence shows that this impacts on the provision of affordable homes much more than it does on the profit margins of the developers and house builders.[25] Indeed, the combined profits of the leading house builders are well in excess of total developer contributions towards affordable housing.[26]

However, even modest proposals for CPO changes are likely to face stiff legal obstacles. As such, while advocating the case for a major overhaul of the LVC system to deliver more affordable homes, the Commission also thinks that improvements can be made to the current planning gain system.

Planning gain or planning contributions and obligations to secure a portion of the increase in the value of land arising from planning permission for affordable housing or other public benefits (notably local infrastructure) have a long and disputed history, dating back to the early 1900s. The main planning gain mechanisms today (section 106 planning obligations – legal agreements which contribute to local housing, with around 60-70% funding affordable housing; and the community infrastructure levy (CIL), a charge on new developments used to pay for supporting infrastructure) are no less controversial.[27]

Evidence to the Commission suggested that local planning policy was critical to making the most of planning gain. It was more likely that land owners would bear costs and deliver additional affordable homes if local plans actually specified that new affordable homes must be provided on a zero-grant basis or bought at a price reflecting discounted net rents, as well as involving housing associations in structuring the section 106 agreement.[28]

More councils are also charging the CIL, although it is unclear whether it is having any major displacement effect on section 106 funds for housing. Evidence to the Commission showed that the greater emphasis on CIL tended to shift the emphasis to local/subregional infrastructure provision, and away from affordable housing. However, the scale of this is unknown.

There is also evidence that the introduction of CIL, especially in low-demand areas, reduces the land values available to pay for affordable housing obligations.[29] The Home Builders Federation, for example, told the Commission:

"Reforming CIL to provide exemptions for affordable housing would just create a problem in terms of the provision of infrastructure. It would be better to state [that] the priorities for planning gain were affordable housing obligations and CIL."

Levels of developer contributions follow the housing cycle and depend on local market conditions. In general, more supply equates to higher developer contributions. However, this does not automatically align, as section 106 contributions are also determined by increased house prices – and there are exemptions for small sites and permitted development schemes.

Section 106 and social housing

The value of the multitude of section 106 planning agreements for affordable housing is site-specific and hard to quantify, but appears to have steadily recovered in real terms over the past five years, with obligations totalling £6 billion a year. That takes the total obligations in monetary terms to close to its last peak in 2007/08.[30]

Not all section 106 contributions are realised, as not all planning consents result in homes built. As such, total actual obligations paid are estimated to be £4 billion a year – with an additional £2 billion from other developer contributions, including CIL.[31] Similarly, not all section 106 contributions are earmarked for affordable housing (just under 70% were in 2006/17).[32]

Official figures suggest section 106 contributions delivered 28,000 affordable homes last year.[33] Evidence to the Commission suggested that obligations had risen from around a fifth of affordable homes to two-thirds by 2008/09. After a period of decline it has since risen rapidly to just under half of affordable homes. It is also noteworthy that much section 106 affordable housing is in larger-scale mixed-tenure developments alongside inner-city regeneration schemes.[34]

The Commission was told that negotiating for affordable housing was always a balancing act between meeting a level of local need and the development value (with higher provision where public-sector land is involved). It was also said that planning gain was marked by spatial inequality, with London and the South East traditionally accounting for around half of total contributions. The Commission was told that this had reduced recently, with an increase in section 106 funded affordable homes in the East of England and the South West, as well as in high-demand rural areas and suburbia.

Section 106 is also important in leveraging in additional public funding for regeneration and infrastructure (through the Housing Infrastructure Fund, for example). As Professor Stephens, an expert on planning obligations, has pointed out:

"It is a rarely noted irony that the mechanism that contributes half of England's affordable housing provision becomes viable as a result of the problem that it is intended to solve."[35]

It may be that in some places the lack of section 106 funding for affordable homes is down to not only low values, but the weakening of the planning system and the unwillingness or inability of councils to place robust requirements for affordable housing (with hard evidence) in the local plan.[36] Studies for MHCLG suggest that this may be the case where councils perceive affordable housing negatively affecting development viability. However, most councils appear keen to enforce affordable housing provision, usually on site, through the section 106 system.[37]

The Commission was told the section 106 system struggled to deliver social rented housing, in part because of the way affordability was defined and measured. APSE, for instance, reported that the policy and planning guidance was overly focused on home ownership, and as such "devalues what can be required through section 106 contributions". Others told the Commission that there was sometimes over-bidding for section 106 contributions and that some social landlords had concerns over the quality of the homes being provided.

Although the shift in new affordable supply has been towards Affordable Rent, section 106 contributions have been a major source of funding for building new social rented homes in a low-grant environment.[38] The Commission would not expect a sudden reversal to mid-2000 levels, but with a different grant mix, contributions for social rented homes could be increased – perhaps to half the total programme (close to levels in 2004/05).[39]

This potential increase should be aided by recent reform to make section 106 less complex and more transparent. Councils now have more flexibility to amend their charging schedules to take account of changes in viability and local housing market conditions, and restrictions on the pooling of planning obligations have been removed.[40]

Nevertheless, if the local plan fails to make adequate provision for affordable housing then there is a risk of legal challenges and further reviews. A change in the planning definition of affordable housing, as proposed by the Commission, will make a difference. So too will improving the capacity and capability of local planning authorities.

The National Housing Federation told the Commission that Homes England should be given greater flexibility to offer grant on affordable homes delivered under section 106 if it can be shown that this would unlock much higher levels of affordable housing delivery and faster build-out rates. It was said that this blended approach would help redirect more funding towards social rented homes.

The Commission recommends government encourages local authorities to be resolute in requiring a level of affordable housing (and especially social rented homes) from section 106 agreements.

Viability test

The Commission was informed that much of the frustration among planning authorities centred on the way in which viability tests had been used by house builders to limit the amount of affordable housing. This may, on large sites especially, be down to the sheer financial complexity of the scheme. It was pointed out that the long and often protracted time lags between initial agreement and completion could necessitate renegotiations. The Raynsford review concluded:

"The degree to which section 106 agreements could be gamed by developers, based on the unfavourable terms of the 2012 NPPF viability test, was a real concern, and has led to substantial reductions in key outcomes such as affordable homes."[41]

The government recently revised the National Planning Policy Framework (NPPF) to assert that where viability assessment was used to inform decision making, "under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant housing housing policies in the plan".[42] Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement). For a specific development, market evidence (rather than average figures) from the actual site or from existing developments can be used.[43]

These reforms seem to have been generally well received, although the Commission was told that there needed to be more support for using the existing use value plus model (which the government itself recognises). It is perhaps too early to say whether these changes will boost developer contributions for extra affordable homes. The negotiations process will in most cases continue to be conditional and complex, and to some degree uncertain. It is to be hoped though that they will make the expectations on both sides of the negotiations clearer and enable more affordable housing to be delivered in accordance with the local plan.

First Homes

The government has announced its intention to support home ownership for lower-income households through its First Homes scheme. The recent Queen's Speech stated that the scheme would provide local people and key workers the opportunity to buy a home with at least a 30% discount. The intention is for the homes to remain at a discounted price in perpetuity.[44] Further detail was provided by MHCLG, which suggested that First Homes would be funded from housing developers' contributions and the discounted homes would be for those who would otherwise not be able to afford to buy in their area.[45]

Details on the proposals were outlined in a MHCLG consultation.[46] By keeping homes discounted in perpetuity, the scheme appears to offer better value for money than Starter Homes, which would have meant that one generation would have benefited from the discount but not future first-time buyers (although no Starter Homes were built, it was criticised for potentially imposing targets on local planning authorities at the expense of new social housing).[47]

The consultation also sets out options for delivery, including paying for the discount and the possible discount rates and local discretion over the level to support first-time buyers in high-demand areas. The Commission welcomes the consultation, but was told that social landlords and lenders were uncertain about the design and delivery of the scheme. It was said that even if it included regional price caps, to make housing affordable in some areas, discounts in absolute terms would have to be substantial and potentially larger than section 106 contributions for new social housing.

The Commission recognises government plans to address affordability problems facing first time buyers through the First Homes proposal using section 106 agreements on house builders. The Commission believes such housing should not come at the expense of reduced obligations on housebuilders to provide social housing and other successful affordable home ownership products. Government should also ensure that the new scheme does not override local planning authorities' objective and evidence-based housing needs assessments.

Permitted development

Permitted development rights (PDR) to convert commercial properties to residential use without planning consent were temporarily introduced in 2013 and made permanent in 2015. The TCPA estimates that this has resulted in 100,000 additional homes – the vast majority are office-to-residential conversions, with the largest concentrations in the large cities.[48]

While acknowledging the contribution towards overall new supply, the Commission is concerned that the extension of PDRs has all too often lead to inappropriate development and undermined local plans that support new affordable housing.[49] The Commission was told that unscrupulous developers had exploited PDRs to create unacceptably poor-quality housing, often rented to the most vulnerable households.

Critics highlight the way in which PDRs bypass the guidance on space and other standards and are exempt from section 106, which in turn leads to a loss of potential affordable homes. Recent research by the Bartlett School of Planning similarly documents the financial loss to local authorities in contributions for affordable homes.[50] According to evidence from the TCPA:

"With permitted development rights delivering nearly half new homes in some areas of the country, the loss of affordable housing through this route is a major concern for councils in securing homes for those in greatest need, and a risk to the delivery of mixed and thriving communities."[51]

Research by the LGA suggests that of 54,000 homes converted from offices to residential properties since 2015 contributed to the potential loss of 13,540 affordable homes over four years[52] (with office-to-residential conversions under PDR accounting for as much as 40% of new homes in Islington, Welwyn Hatfield, Mole Valley, Croydon and Derby).[53] This is around a quarter of all PDR conversions since 2015.[54]

Evidence from RICS illustrates how PDR has allowed extremely poor-quality housing to be developed. Their site visits and case study showed:

"PDR residential quality was significantly worse than schemes which required planning permission, even though it clearly was still possible to deliver viable office-to-residential schemes through the more stringent full planning permission."[55]

The Centre for Cities also claims that the government needs to be cautious about using a nationally determined policy like PDRs as the tool to remodel city centres:

"At best the policy will be ineffective; at worse it will harm the economies of stronger city centres."[56]

PDRs for the conversion of office space into new housing are undermining local plans and planning gain for affordable homes, and often having negative consequences on housing standards. The Commission recommends that the government return these planning powers to local authorities.

Public land and infill development

The availability of public land will be a key driver in the delivery of the new affordable homes. The government has identified enough public land for 160,000 homes, with land from government department so far providing around 40,000 homes.[57] Other commentators estimate that in London alone there is potential for over 200,000 new homes to be built on land in local authority ownership.[58]

The Commission was told that councils were actively seeking out land they own on which to build affordable housing. The forthcoming new London Plan, for example, states that at least 50% of homes on surplus public land across its portfolio should be genuinely affordable.[59] The Department of Health & Social Care is also piloting schemes to provide affordable homes for NHS staff on the department's land.

However, many of the sites are speculative and few are sold on the basis of providing affordable housing. According to NEF's analysis (between 2011 and 2018), only 23% of homes built on public land could be classified as affordable, and as little as 6% were for social rent.[60]

The Commission was made aware of the potential opportunities to use infill sites (vacant or underutilised sites, like disused garage sites) for new affordable homes. Evidence from the London Assembly suggests that London has the capacity for at least 100,000 homes on infill and small sites, most unviable for development through conventional means.[61] JLL claim that the country's 10,500 car parks could be used to build as many as 400,000 new homes.[62]

Although there is a lack of data on the availability of infill there has been growing interest from intermediate affordable housing providers like Pocket Living, which delivers high-density infill homes that are 20% below the local market rate. However, the Commission was told that the loss of smaller building firms meant that "infill" developments were often hard to build out.

PART EIGHT

A mix of social housing

The rise and fall of local authority house building has been well documented. Over half a century, between 1969 and 2019, the number of completed local authority dwellings fell by 98%.[1] Local authorities in England have built only 25,000 homes since 1992, while waiting lists for social housing have consistently been over a million.[2] The figures speak for themselves and chart the way in which social rented housing became steadily marginalised and residualised.

Throughout the 1950s, 1960s and 1970s councils in England were building on average around 125,000 social rented homes a year, roughly half of total completions. By the mid-1990s, as right to buy kicked in, grant-supported council housing had fallen to well under 1,000 a year. Although over the past decade local authority completions have increased to a provisional 2,640 in 2018, it is still less than 2% of the total.[3] As the evidence from SHOUT concluded:

“No recent government has built enough homes and the number of social rented homes available has been falling rapidly when it should have been growing.”

However, official local authority house building statistics should not be misinterpreted as they exclude social housing from planning gain (as mentioned in the previous section) and from council-owned or part-owned local housing companies (LHCs)[4] – as well as other delivery vehicles, such as joint ventures.[5]

Councils’ building again

According to research sponsored by the RTPI, around eight out of 10 councils now have (or are planning to have) a wholly owned or joint venture (JV) housing or property company, many building on their own land. Collectively these provided an estimated 13,000 homes in 2018, with an estimated 23% classed as social rented.[6]

Until recently most of the new build by stock-owning councils was provided under the council’s regulated self-financed housing revenue account (HRA). However, with the new LHCs and JVs bedding in, this is expected to change (with councils investing an estimated £8 billion in new build).[7]

The lifting of the borrowing caps in 2018 and the lowering of PWLB rates for social housing will enable stock-owning councils to borrow more against their HRA assets. This could make a difference. Shelter, for example, suggest it could add up to 27,500 council homes a year by 2023/24[8] – although others forecast a lower number.[9]

According to a recent LGA survey, most stock-owning councils are considering increasing their borrowing for new homes,[10] although few see it as a magic bullet to providing more social rented homes. Solace told the Commission there was a need for some myth busting around HRA borrowing.

"It is not the case that lifting the HRA borrowing cap is a panacea for accelerated house building in areas that have undertaken 100% stock transfer and thus retain no stock and HRA. New housing company structures could be contemplated to re-establish HRA, but this will take many years to generate transformational borrowing capacity."

The District Councils Network argued that a resurgence of council-led building will require a more streamlined CPO process, step-in rights to intervene on stalled proposals, and release of housing infrastructure funding.[11]

The new LHCs and JVs (operating outside the regulations covering the HRA, including restrictions on access to capital grant) vary in scope and purpose, including offering temporary accommodation or specialist housing, buying properties, leading on estate renewal or building a mix of housing types. According to a study of LHCs by the Smith Institute:

"LHCs offer councils a 'triple dividend' in the form of much-needed extra housing, a greater stewardship role in place shaping and a financial return to the council. Councils are attracted to them because they want more control and influence, and greater freedoms and flexibilities (especially over rents, borrowing and the RTB)."[12]

The Commission was made aware of the many policy, regulatory and financial constraints on local authorities which want to build or directly support affordable housing supply (especially the pressure to sell off council land and so on). It was also noted that councils faced similar risks to housing associations in running a cross-subsidy model that's reliant on open market sales.

However, the Commission was also told that the fact that the RTB seems not to apply to LHCs is a "major plus" and that the government appeared relaxed towards councils setting up arms -length companies. However, it was said that not all LHCs are seeking to provide social housing. The Commission was told, for instance, that a lot of LHC stock is let at near PRS levels, and that while this generated a revenue stream for the council and contributed towards improving the housing mix, it was debatable as to whether it was helping meet the needs of lower income households.

Nevertheless, there seems to be a much greater willingness among councils – building directly themselves or through a LHC - to provide a mix of tenures, including a proportion of social housing. The Housing Forum stated that all local authorities must become more pro-active leaders of housing supply.

"Local authorities are well positioned to tackle the current shortage of new homes; they have planning and land acquisition powers, coupled with the statutory powers to provide high-quality housing for all residents within their area".

The evidence suggest that many councils have developed ambitious plans to build, especially in London where the GLA's £1bn 'Building Council Homes for Londoners programme' (2018-2022) aims to provide 11,154 new council homes at social rent levels and 3,570 other genuinely affordable homes (making it the highest level of council housebuilding in the capital since the 1990s).[13]

Examples of councils' building plans: 2019/20-2023/24

Council	Housing Revenue Account	Local Housing Company
Havering	3,000	2,438
Barking and Dagenham	19	3,088
Southampton	1,000	-
Croydon	4	2,916
Newham	1,056	1,600
Hackney	1,421	-
Greenwich	750	226
Sheffield	1,112	1,297
Ealing	536	1,501
Norwich	1,250	275
South Norfolk	-	598
Wolverhampton	529	859
Cornwall	320	1,000
Birmingham	1,167	-
Cambridge	521	293
Nottingham	468	203
Crawley	758	-
Milton Keynes	500	-
Oxford	-	548

Source: Barker, B Council housebuilding: back with a vengeance, Inside Housing 11 October 2019 (based on FOI requests)

The trend seems to be towards strengthening alliances between councils, other public and private housing providers and public agencies. As mentioned, Homes England, for example, have adopted a much more strategic, partnership approach to council-led development.

A new wave of innovation was evident in the submissions: For example, Birmingham City Council, which has a track record of house building, is planning to open up sites that have been bypassed by the private sector; Bristol City Council's Goram Homes is delivering schemes with 55% affordable homes; and Plymouth City Council are working with institutional investment backed companies to provide new rent to buy homes.

The Commission was also told that local authorities can do development cheaper (lower profit margins, access to land at discounted prices and cheaper borrowing), and that LHCs have the flexibility to flip homes from market sales to rented housing if market conditions change. However, others told the Commission that as new arrivals LHCs will face entry costs as they bed in and that converting homes from sale to rent was far from cost-free.

With more grant and more borrowing, the Commission believes a fast expansion of council building activity across a range of housing tenures is feasible. Building directly through the HRA and via LHCs and JVs, councils could deliver a substantial increase over five to 10 years.

The Commission supports the government's encouragement to councils to build again at scale, directly and through local housing companies. Achieving that ambition will require increased resources for councils to deliver a high proportion of social housing in mixed-tenure developments.

Community-led housing

The Commission was made aware of the growing interest in alternative housing schemes, including community-led housing, co-housing, co-operatives, mutual home ownership housing and custom and self-build. It was said that such locally based schemes gave communities much more control over how affordable homes are developed and stewarded into the future. It was also pointed out that long-standing alternative housing models, such as co-operative housing, were popular across a range of income groups in countries such as Switzerland, Austria Germany and Scandinavia.[14]

The Commission was told that community-led housing projects, often co-funded by housing associations and councils, often take many years to complete but have the potential to benefit neighbourhoods and the wider community.[15]

Homes England estimate the current pipeline of community-led homes to be some 16,600.[16] The Confederation of Co-operative Housing and National Community-led Housing Network told the Commission that community-led housing was already making its mark, although it would help if the sector were exempt from policies or legislation that undermined the permanent affordability of such homes (including the voluntary right to buy). The National CLT Network also called for the government to:

"…upgrade the Localism Act to provide powers like those in Scotland, where communities don't just have the right to bid (as in England) but have a pre-emptive right to buy land at an independently valued price."[17]

The Commission was told that the sector had benefited from the £500 million Community Housing Fund, although take-up across the country has been mixed. It was said that the fund should be extended for at least another three years, but with a stronger focus on homes for lower-income households.

The Commission was told that CLTs are concerned about leasehold enfranchisement (which prevents most CLTs from protecting leasehold homes in perpetuity) and mortgage lending practice. According to the National CLT Network:

"Low-cost ownership products that restrict resale prices, and that have 'local first' allocation policies, experience particular problems."[18]

The network is calling for a national model for affordable housing that includes perpetuity arrangements that lenders can build into their mortgage assessments.[19] Consideration could be given to the idea of an English version of the Scottish legal title "rural housing burden", which through a covenant in the deed of sale ensures the land can only be used for affordable housing.

Custom and self-build have also grown in profile and collectively provide some 13,000 homes annually. This is less than in some EU countries, like Germany and France, but a significant increase over the past decade or so. Output is expected to increase under the 2016 right to build legislation[20] and extra government support, although the Building Societies Association told the Commission that the current (loan book) limits for lending on self-build could constrain growth. Other barriers include problems securing suitable sites and lack of seed funding. It was also noted that the level of local awareness and engagement by councils varied considerably.

According to the National Custom & Self Build Association (NACSBA), custom and self-build homes are generally of high quality, boost workflows for SME builders and engender a sense of community. The Commission heard how some councils actively supported private self-build housing, subject to meeting local affordability criteria (including price caps on resales).[21] There are also examples of cross-subsidy with market housing on exception sites, including open-market self-build.[22] Housing associations are often involved in self-build projects, supported by organisations such as the Community Self Build Agency.

Although there are examples of custom and self-build delivering affordable housing, it remains dominated by relatively wealthier home owners. The value of the average self-build property, for example, is often above the average house price and half of individual self-builders have annual incomes of more than £50,000.[23] Nevertheless, by increasing supply and providing a competitive alternative to volume house builders, self-build and custom build add to diversity and choice for people wanting to rent or buy.

Community Land Trusts

Community Land Trusts (CLTs) are organisations set up and run by local people to develop and manage homes as well as other assets important to that community, such as community enterprises or workspaces. The CLT's main task is to make sure homes are genuinely affordable in perpetuity, based on what people actually earn in their area, not just for now but for every future occupier. Most are small-scale and often work in partnership with councils and social landlords. According to the National CLT Network, there are over 300 CLTs in England and Wales, most in rural areas. The sector has grown sixfold in the past six years and further growth is forecast.

Other innovations include co-living, where individuals have a private housing space but access to a range of communal facilities such as shared living areas, dining spaces, and gardens. According to the Social Market Foundation, co-living schemes – such as Lyvly, Roam and new campus-style developments – "could provide a suitable route to home ownership, provided it can be offered at a financially affordable price".[24]

The Commission recommends that central and local government continue to support community-led housing (in part through a new renewed community housing fund). The government should help remove barriers to scaling up community-led housing, including exemption from leasehold enfranchisement.

Workforce housing

At the Commission's IoD/CBI round table discussion with senior members of the business community it was said that the affordable housing crisis affected not only the well-being and morale of the workforce, but also recruitment and retention.

A recent Survation survey for the Centre for Social Justice showed that nearly two-thirds of companies were concerned about how housing affordability was impacting their business.[25] The CBI claims that London's housing shortage is a "ticking time bomb" for firms,[26] while a London First/YouGov poll in 2019 disclosed that 38% of Londoners had considered moving out of the capital owing to the rising cost of housing, with a quarter of those planning to move in the coming year.[27] It was said also that some employers offered salary weighting to offset extra housing costs, but that this was less common outside of London.

At the Commission's regional events it was said that in some places the lack of suitable affordable housing was becoming a serious constraint on local growth.[28] Skilled workers wanted housing choice, which were not always available. It was also said that in some areas some level of protection to households should be in place so that leaving or losing your job would not result in simultaneous homelessness.

Concerns over workforce housing were echoed by trade unions and the TUC, who told the Commission that affordability was now featuring more in collective bargaining. Mention was also made of government-funded key worker housing schemes (for people who don't qualify for social housing and can't afford home ownership) run by social landlords, such as Clarion, Optivo and Peabody. House builders, such as Bovis Homes, also offer tailored key worker homes to buy at a discount.

The UK has a long history of employer-assisted housing, dating back to Victorian philanthropy and the garden cities movement.[29] Although businesses today support housing charities and campaigns, there are few examples of companies actively engaged in affordable housing programmes (providing discounted homes for staff, offering cheap or deferred loans, donations of land and buildings, and so on).

The Commission was none the less encouraged by a return to house building by some employers, such as the Nationwide Building Society, which is funding the 239-home Oakfield Campus scheme in Swindon, near its head office.[30] The building society says removing the profit margin that housing developers would chase will enable it to achieve the council's requirement for 30% affordable housing on the site without subsidy. Another major example is Oxford University, which has partnered with Legal & General to build thousands of homes for staff and students over the next decade.[31]

There are also some examples of NHS trusts providing housing for their staff, such as Salford Royal NHS Foundation Trust, which partnered with Salix Homes in 2018 to provide affordable homes for nurses and doctors.[32] However, recent research by NEF suggests that the vast majority of homes build on NHS land are for market sale and unaffordable for most NHS staff.[33] The Commission was told that acquiring land from the NHS for affordable homes at even a small discount was often very challenging.

According to the Centre for Social Justice Housing Commission's, company support for housing developments are more common in the USA, with the likes of Microsoft co-investing in affordable workforce housing in high-cost cities such as Seattle.[34] Other American firms, such as Google, tap into the uplift in land value from their developments to provide a percentage of affordable homes for households on low to moderate income.[35]

The main way private investors are involved with affordable housing in the USA is through the low-income housing tax credit (LIHTC) programme, which finances about 50,000 low-income rental units a year. The programme, whereby private investors and companies receive a federal income tax credit as an incentive to make equity investments in affordable rental housing, is viewed as "a complex but crucial tool for the production and preservation of affordable rental housing".[36] The programme is not without its critics, who claim that the investors and intermediaries, rather than tenants, benefit the most.[37]

However, the Commission believes the government should examine the pros and cons of the LIHTC programme and consider how such a tax incentive measures might support affordable housing provision in England. Such an evaluation should draw on previous studies, such as research by the Winston Churchill Foundation and Affordable Housing Institute in the USA.[38]

A few companies offer savings accounts with low interest rates for staff who are saving for a deposit. Some are directly involved in the rental market, but mostly for those on above average salaries. Employers have also been involved in initiatives such as London's "Fifty Thousand Homes" campaign (a business-led campaign to boost housing in London) and some are involved with build-to-rent projects. However, the Commission was told that in general there was a lack of political "ownership" of employer housing – at both a national and local level.

The Commission believes that employers could do much more to help tackle the affordable housing crisis. We agree with the proposal from the Centre for Social Justice that government should establish a dedicated employer housing unit to support and promote affordable workforce housing schemes.

Affordability in rural areas

Housing unaffordability in rural areas is driven by similar supply and demand factors to those in urban areas. However, there are also distinct rural issues: more home owners than in urban areas;[39] an older population;[40] poorer-quality housing stock;[41] and in some areas concentrations of holiday lets and second homes.

According to MHCLG, only 8% of the housing stock in rural areas is social housing.[42] Development remains heavily weighted towards open market housing.[43] The inability of households, especially young people, to find a home they can afford affects not only their life chances but the sustainability of rural communities. There are also worrying signs that fuel poverty and homelessness are increasing in rural areas.[44]

The past five years have seen an increase in the number of new affordable homes built in rural local authorities.[45] Nevertheless, affordable housing supply is considered to be well below housing need.[46] CPRE notes that at the current rural build rate it would take 130 years to meet the backlog of need.[47]

The relentless increase in land values is presented as a major constraint on the delivery of rural affordable housing. Although recent revisions to the planning policy guidance state that the price paid for land is not a relevant justification for failing to accord with relevant housing policies in the local plan, sites are not being released at anything close to a price that would support affordable housing – at least not at the scale needed.

Evidence to the Commission also suggests many local planning authorities continue to adopt policies that restrict new development to a limited number of settlements deemed appropriate for growth by the presence of services, leaving other communities without opportunities to meet their housing needs.

Investors in rural housing schemes complain that the complexity and uncertainty of the planning system is a major problem.[48] According to Action for Communities in Rural England, the NPPF framework undermines the ability to provide affordable housing in rural communities:

"This is a result of the unintended consequences of the generic policies for increasing housing supply, the removal of the ability of local planning authorities to seek on-site affordable housing contributions from small sites and the reliance on rural exceptions sites."[49]

The recent House of Lords Select Committee report on the Rural Economy stated:

"Rural exception sites (RES) are an important contributor to rural affordable housing... [but] wider government policy may disincentivise land owners from bringing forward rural exception sites for rural affordable housing."[50]

The use of RES policies (which provide for affordable housing in perpetuity) have been helpful in incentivising the release of land well below market values. However, it was noted that RES development was limited to only a small number of rural councils.[51] The Commission also heard that land owners were increasingly unwilling to release rural exception sites that attracted a value significantly less than open-market values. Instead, it was said they were waiting in the hope their land would be allocated for residential development in the local plan, as part of the on-going requirement to have a five-year land supply. Once allocated, such sites will attract a market value and RES policies will not help.

The Commission was told that too many developments in rural areas sought to minimise or exclude affordable housing under viability testing, especially where there are land shortages.[52] However, it was reported that some landlords in rural areas, particularly landed estates, might be willing to invest in rural affordable housing if there were positive fiscal incentives. The Country Land & Business Association (CLA), for example, claims 38% of its members would be more willing to sell land at a discount for affordable housing if the value of the land was exempt from capital gains tax.[53]

The Commission was told that other tax changes could boost affordable housing in rural areas: conditional exemption from inheritance tax; reduced stamp duty on purchases of rural affordable houses; granting capital allowances for conversion to affordable housing; and the potential for social investment tax relief for community-led housing.

Any tax measures would however require legal assurance that the use of the land and property for affordable housing would be in perpetuity. Land owners would be reluctant to release sites if the homes were not to be made available to local people or if the property could be sold on later.

The Commission agrees with CPRE that “local authorities should be encouraged to plan first and foremost to meet identified local need for social housing and other low-cost tenures, even if this affects overall delivery rates”.[54] The Commission’s alternative definitions and measures of affordability should help in this respect.

There are other major barriers to the delivery of affordable homes in rural areas, including the small number of councils that continue to own social housing stock and are able to take advantage of the new borrowing freedoms. There is also a small pool of housing associations who are willing to build in small rural communities.[55]

For rural areas, the Commission recommends that the government offers greater support to innovative affordable housing initiatives, including for community land trusts and small builders. Such support could include regulatory reforms and tax incentives to encourage landowners to assist with housing provision for local people, with housing remaining affordable in perpetuity. And, councils should be permitted to require some affordable housing to local people in rural schemes of less than 10 homes.

PART NINE

Addressing affordability directly

Assessments of current and future housing need highlight not only the challenge of meeting the nation's housing need, but also the huge pent-up need for a mix of affordable housing. That backlog is especially marked in areas of faster population growth, notably in London and other southern regions.[1]

There will continue to be wide variations in demand by place and tenure and economic geography, and housing market conditions will remain major determinants. As mentioned, in some areas where population growth is high, housing costs are relatively low but rising fast. In other high-demand areas price growth has stabilised, but the majority of low- to average-income renters are struggling to find suitable and affordable homes.[2]

However, it will still take time to crank up the supply of new affordable housing: to find sites, increase capacity and turn starts into completions. In the meantime, efforts can be made to increase new-build affordable homes in the short term by stopping the loss of social rented homes, converting existing properties and bringing empty homes or other properties back into use.

Buying for social rent

Acquisitions of existing properties by social landlords has a long history: it was the main driver for the growth of housing association activity in the 1960s and 70s. In the 1990s, acquisition of social rented homes averaged around 10,000 a year[3] and was supported by housing market package, which enabled housing associations to buy unsold private-sector homes following the housing slump.[4] Housing associations also bought properties through the Mortgage Rescue Scheme after the financial crisis of 2008.[5] However, levels of acquisitions have dropped to below 1,500 a year over the last decade.[6]

As explained in Appendix 2, "Buying Existing Properties – Assumptions", acquisitions offer better VFM in lower-value areas. The net cost of buying in high-value areas is much greater. In London, for example, converting a bought property to social rent (after housing benefit savings, tax losses and administration costs) would cost around £128,000 a home.

The case is stronger for buying homes for temporary accommodation: as the cost of provision in the private sector is high, there are the potential savings to councils and the state (even if temporary accommodation is more expensive to run). The net position, as shown below, demonstrates that over a 30-year period a buy-to-relet scheme for temporary accommodation would be in surplus.

Buy to relet for temporary accommodation

	Present value (30 years)
Cost of buying	£350,000
Rental income	£547,400
Maintenance, management and repair costs	£175,800
Stamp duty	£7,500
Administrative costs of buying	£2,500
Net position	£11,600

Source: See Appendix 2 for more detail

Given these costings, the Commission suggests that the focus of any buy-back scheme should be on meeting acute housing need, especially providing temporary accommodation. Some councils are already doing this, for example, Enfield council's LHC (Housing Gateway), supports people out of homelessness by buying properties. The council says the initiative has saved over £1.5 million a year and improved the service.[7] There have also been multi-council approaches, such as the pan-London PLACE scheme (Pan-London Accommodation Collaborative Enterprise), which uses modular properties for temporary accommodation.[8]

Other councils, like Nottingham and Croydon, are buying back RTB homes using RTB replacement receipts and council borrowing. Buying properties is often difficult where homes are pepper potted, but not impossible. Partnership initiatives for temporary accommodation demonstrate one way forward. Another is for councils to work closer with the property sector on identifying suitable homes for purchasing.

Croydon Affordable Homes

Croydon Affordable Homes (CAH) was established in 2017 as a charity to provide affordable homes for borough residents – "affordable" defined as costing no more than 65% of the average market rent. CAH buys and then rents homes using right-to-buy sales receipts and council funding. In 2018 it partnered with Legal & General to provide 167 homes (two-and three-bed flats and houses) for families previously in temporary accommodation, and it has recently acquired its 250th property. The homes are leased by CAH to Croydon council over a 40-year term, after which time they will belong to the council. The partnership will save the council £20 million because the deal with L&G has better loan rates than borrowing through the Public Works Loan Board.

Acquisitions in low-demand areas

The Commission believes there is a case for buying existing property in lower-demand areas with the objective of improving the housing stock. Such investment would cost significantly less to fund if it were focused on non-decent lower-value rental properties. However, the Commission notes that the process would not be risk-free and that not all homes will hold their value – as witnessed with some properties bought under previous programmes.

Buying low-value homes would require extra grant funding but deliver economic and social benefits and could help shift the tenure balance towards social housing. The net cost benefits would be much larger over a longer period (as the costs are front-loaded) and would also leave the public sector with a housing asset – see table below.

Net benefit of investing in non-decent housing in low-demand areas

	Present value (30 years)
Cost of initial purchase	-£36,400
HB savings	£9,824
Rental income	£112,502
Maintenance, management and major works	-£67,609
Cost of improvement	-£15,000
Employment benefits	£2,497
GVA	£13,514
Distributional benefits	£6,761
Net benefit	£6,440

Source: AHC calculations

Focusing on properties worth a maximum of £40,000 could capture an initial 100,000 homes in the PRS. As the Commission has noted, at these price points there is often little appetite among first-time buyers. Assuming average investment of £50,000 to buy and bring up to the Decent Homes Standard, the Commission estimates there could be potential to support the purchase of around 25,000 homes a year.

The Commission calls on the government to support (through extra funding) the scaling up of schemes to enable social landlords to buy existing properties and empty homes for social renters, especially non-decent homes in the PRS. Such programmes can help improve housing conditions, bring the benefits of regeneration to an area for lower costs than demolish/rebuild models and can contribute to the revitalisation and levelling-up of areas outside of cities.

Providing incentives for landlords to sell

The Commission looked at the idea of offering incentives for landlords to sell, either to social landlords or to sitting tenants. The think tank, Onward, proposes tax breaks for private landlords who sell homes to tenants at a discount: buy-to-let landlords would receive 100% capital gains tax relief on the sale to the sitting tenant, with half the windfall (on average £7,500) going towards the tenant's deposit. According to Onward's modelling this would benefit 88,000 households.[9] However, it is uncertain whether the tax break would be sufficient to entice landlords to sell, or to what extent this would benefit tenants on below-average incomes.

The Commission was told that social landlords could form real estate investment trusts (REITs) with private companies to buy homes with sitting tenants, with the landlord holding a share option. According to the *Investors Chronicle*:

"Reits focusing on social housing, homes for the elderly or student accommodation benefit from the liquidity of being listed vehicles, and can help investors purchase shares in a property portfolio at below its net asset value."[10]

The NRLA reported that the sector was open to the idea of targeted tax relief for sales proceeds to FTBs and tenants, perhaps linked to buying annuities. This may be workable, although the Commission was told that very low-value homes are more than often resold to private landlords. There are also other issues to consider, not least the qualifying criteria (would the tenant already have bought), the impact it might have on other owner-occupied properties, and overall value for money of running such as scheme at scale.

Empty homes

Empty homes blight communities and deter investment in affordable housing and regeneration. The problem was highlighted at several of the Commission's regional consultation meetings. In Bristol, for example, it was reported that over 1,000 homes were vacant for more than a year. The Commission heard a similar story in Manchester, Birmingham, Leeds, Hull and Liverpool.

The number of long-term empty homes (empty for six months or more) began to increase again in 2017 and has since risen to over 216,000, with sharp increases in London, the South East and Eastern regions. However, empty homes continue to be concentrated in low-demand areas in the North of England.[11]

Because the country already has one of the oldest housing stocks in Europe,[12] with a disproportionate number of older private rented properties,[13] there is a real worry that without sustained investment more and more sub-standard homes will eventually be left empty (and the cost of bringing them back into use will increase).

In addition to empty homes, it is estimated that there are increasing numbers of empty commercial properties, including above shops. The Master Federation of

Builders estimates that 300,000 people could be housed by making use of empty spaces above shops.[14] According to the Local Data Company, store closures are at a five-year high, with one in 10 high-street shops standing empty.[15] The Commission was also told that more consideration needed to be given to converting entire empty properties, rather than just the upper floors (as shop owners may not want people living above their premises).[16]

The extension of permitted development rights was in part intended to stimulate conversions and thereby improve both quality and affordability. Regrettably, as explained in the previous section, this has not always been the case.

Empty homes in Hull

Hull-based charity Giroscope was formed from a group of ex-students and unemployed young people to turn empty houses into homes. The award-winning charity, part of a network of community-based housing projects, secures loans and grants to buy and renovate empty property in the deprived areas of West Hull, often with the help of prospective tenants. The properties, bought from private landlords, are finished to a high standard and let at secure and affordable rents. Giroscope also works with the council to support community self-build housing on vacant public land. Although operating at a small scale (around 84 homes since 2012), the Giroscope community-led model has the potential to be scaled out across the country.

The Commission noted that many “second homes” were unused and in some places “buy-to-leave” properties were used for wealth storage and/or tax avoidance and in some cases evasion.[17] It was reported that councils were frustrated over the ease in which second home owners who didn’t live in the properties could deceive the Property Tribunal.[18] Anecdotal evidence suggests that since the council tax for empties has been increased, a lot more people are falsely claiming to live in properties that are in fact empty. In order to address the problem, some social landlords market new homes locally.[19] Others, such as St Ives council, have – on the back of a local referendum – introduced “principal-residence only” policies, which effectively ban the sale of new houses as non-primary residences.[20]

Although councils have a wide range of powers to tackle the problem, including the option to increase empty homes council tax premium,[21] compulsory purchase and enforced sales powers and empty dwelling management orders, it was noted that far too often the process was time-consuming and costly. It was reported that many councils lacked the resources or capacity to act, and that the situation had worsened since the closure of the government’s Empty Homes Programmes (2010-15).[22] It was said that the programmes – administered by Tribal – had been successful and that a similar fund today of around £185 million could bring 15,000 properties back into use (based on local match funding).[23] Evidence from a similar Welsh scheme has shown that the majority of buyers accessing their equivalent fund were converting empty homes for private rent and for investment purposes.[24] The Commission's view was that a new loan scheme should prioritise affordable housing.

Nevertheless, some social landlords have piloted a variety of initiatives, including Liverpool City Council's "Homes for a Pound" and the Plus Dane Group's community-led empty home projects. These schemes proved popular, although in general housing associations seem to have little appetite beyond their own stock to convert empty properties into new affordable homes. It was mentioned that the default mindset of some housing associations (and other social landlords) was to sell empty homes directly into the PRS via auction houses. This may signify both a lack of incentives and the sheer hassle factor, but the Commission feels more could be done to keep homes in the social sector – perhaps via a consultation process with local councils.

The Commission recognises the limits to converting empty homes into affordable homes and is cautious about over-simplifying the task and equating street homelessness with empty homes. Less than 10% of all vacant dwellings are in the social rented sector and social landlords' voids are relatively low. Nevertheless, refurbishment is a lot cheaper and often quicker than new build. The Commission therefore believes there is a strong case for concerted government action in support of converting not just empty homes to affordable homes, but also spaces above shops and other empty buildings.

The Commission recommends that a new empty homes fund be established for social landlords and community organisations, similar to the previous Empty Homes Programmes. The tightening up of the legal definitions and provisions as to what constitutes an empty home for enforcement purposes is also needed.

The Right to Buy

The impact of right to buy (RTB) continues, 40 years after its introduction in the 1980 Housing Act. Through selling council housing to tenants at a heavily discounted price the policy aimed to promote home ownership, privatise the housing stock and create a "property-owning democracy". The discounts were also justified on economic grounds at the time of their introduction, with high interest rates and inflation, low rents compared to running costs, and high subsidy rates.[25]

The policy did contribute to rising levels of home ownership. Estimates suggest around a third of the increase in home ownership in the 1980s was directly attributable to the RTB.[26] However, while RTB has supported people into home ownership, it has also had a significant impact on the level of social housing available for those on lower incomes. This impact was mentioned frequently in submissions to the Commission, with RTB blamed for hundreds of thousands of homes being removed from the social housing sector.

Evolution of right to buy

The 1980 Housing Act gave most tenants the statutory a statutory right to buy (RTB). Under the policy, tenants were also entitled to various discounts on the purchase price: 33% of the value of the property, increased depending on the length of tenancy up to a 50% reduction for those who had been tenants for 20 years or more (with a cost floor for homes built after 1974). This was increased in 1984 to a 60% discount for houses and 70% for flats.[27] Discount rates continued to evolve, with maximum absolute amounts set at a regional level and initial qualification periods extended to five years of tenancy. After the change in government in 2010, RTB was relaunched, with discounts increased to 50% for flats for public-sector tenants of three to five years and a further 1 percentage point reduction per further year of tenancy, to a maximum of 70%. The discount was limited to £110,500 in London and £82,800 in the rest of England.[28]

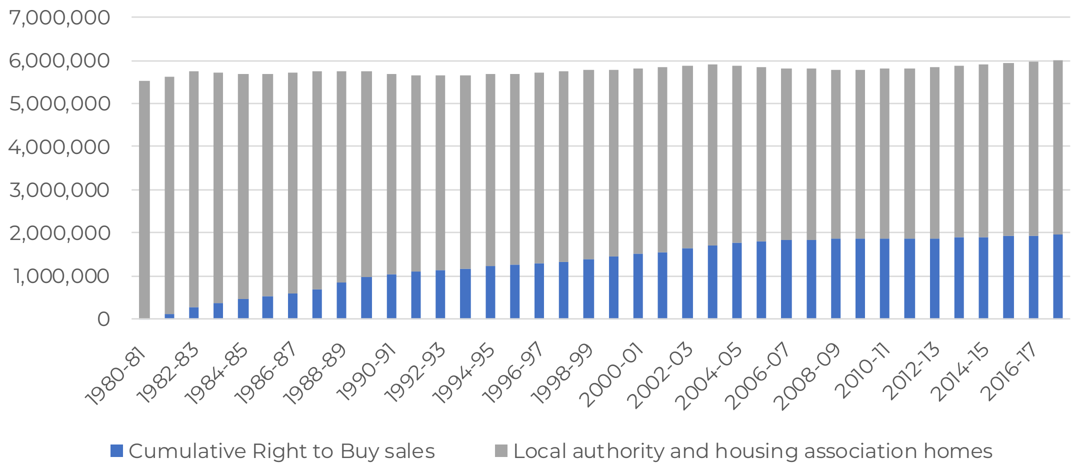
Housing associations were exempted from RTB legislation after intervention in the House of Lords in the early 1980s. However, those living in housing association properties which have been transferred from local authorities have a preserved right to buy, and tenants in some (non-charitable) housing associations have had the right to acquire their home since the 1996 Housing Act.[29] A voluntary right to buy pilot scheme was introduced across the Midlands in 2018. The pilot is expected to be concluded shortly and – according to MHCLG – more than 9,000 households have registered an interest.[30]

Since its introduction, close to 2 million homes in England have been sold under the scheme.[31] Alongside the reduction in new build this has reduced the social housing stock considerably.

Although various pronouncements have been made about one for one replacement the level of new build social housing has never been higher than the loss of stock through RTB. Furthermore, half the replacement homes (which do not need to be in the same area) have not been delivered at social rents. Indeed, ministers proposed allowing councils to build shared ownership ‘replacements,’ which would exclude most low-income households.[32]

While social housing providers have built new homes, they have also demolished older or dilapidated stock. As the table suggests there has been a declining rate of social stock at a similar rate to RTB sales.

Right-to-buy sales and social landlords' housing stock



Source: MHCLG, Live Tables

The Commission was told that the consequences of RTB has been the 'residualisation' of the remaining stock, with the scheme being taken up mostly by better off tenants. According to the National Federation of ALMOs:

"Councils are still having to sell many of their homes under the re-invigorated RTB policy at a significant loss which leaves them unable to re-provide replacement social rented homes on a one for one basis".

Income levels continue to determine the numbers who can buy a home even at a discount. Furthermore, while the scheme has supported some people into home ownership it has been a one-off transfer. It has enabled some families to build up wealth, but it has also meant that younger people who would have once been able to live in social housing and save for a deposit can no longer do so (higher rents in the PRS makes such savings far more difficult).

The Commission looked at whether the RTB has had a positive impact in terms of creating 'mixed' or 'balanced' communities. According to a literature review by the Cambridge Centre for Housing and Planning Research, the evidence for increasing tenure mix in existing estates dominated by social housing or regeneration areas is not clear cut:

"In many cases, the operation of the RTB has meant that estates are no longer mono-tenure, yet the residents (and their characteristics) have not changed and problematic poor areas remain. This suggests that mixing tenure alone is not the immediate answer to concentrations of poverty".[33]

The Commission was told that instead of RTB achieving a mix of occupiers on council estates, sales into the PRS have led to poorer households moving in - resulting in a greater concentration of poverty. The initial impact of RTB though does not change the mix, as those exercising their right remain in their home as leaseholders. What has happened when there was a resale has differed according to the local housing market and housing type, and left some places with a larger concentration of poverty. In this sense, it has been noted that the social mix has been altered rather than necessarily enhanced.[34]

Part of this story has been the transfer of RTB properties to the PRS. According to research by Inside Housing 40% of the RTB homes are now rented privately, with as many as 70% in places like Milton Keynes.[35] Freedom of Information requests found that over a third of RTB leaseholders were registered as living away from the property,[36] while a survey by Tom Copley (at the time a London Assembly Member) showed that over a third of homes sold in London were now owned by private landlords.[37] Tower Hamlets told the Commission nearly two thirds of the 15,000 council properties transferred to private ownership are now rented out by private landlords (often flats in multiple occupation):

"At the sharp end, we know that very many low income renters, and especially migrants, are pushed into an 'unofficial' sector without enforceable rights: without written tenancy agreements, with 'cash in hand' rent payments, and with restrictions on using the address for any official purposes".[38]

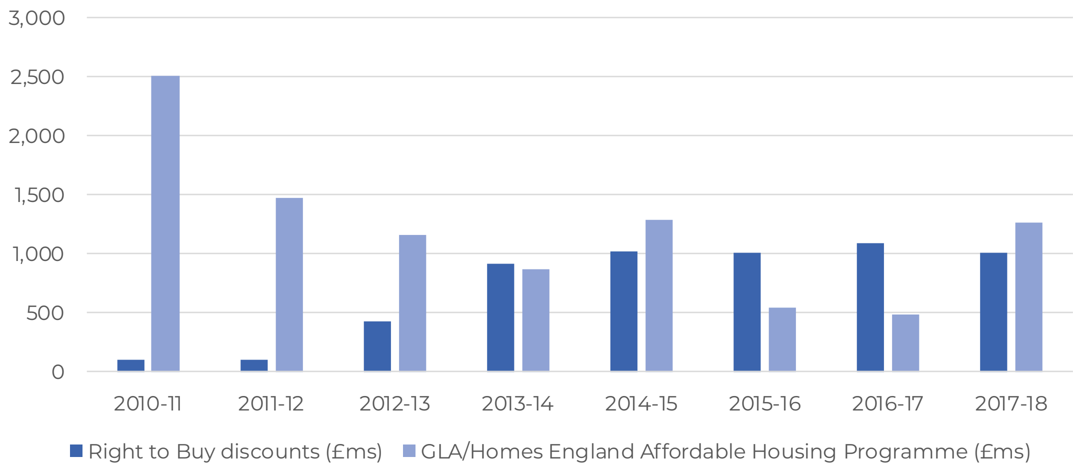
Previous studies have shown that rates of RTB homes owned by private landlords outside of London are lower, but large numbers of former council properties are now let by private landlords.[39] Many of these homes are likely to be rented by people in receipt of housing benefit. Research in Renfrewshire found that one in four private tenants claiming housing benefit were in former local authority properties at an estimated additional cost of £3 million per year.[40] Regardless of who owns individual ex-council properties, the impact of a reduced social housing stock will with time mean a higher housing benefit bill as low income households rely on more expensive private rented housing.

The cost of the RTB discounts has been considerable with one study from 2013 suggesting a bill of between £150bn and £200bn.[41] Although dwelling on the historic cost of the policy is unlikely to help with policy today, it is important to consider these impacts when assessing the value for money the policy delivers.

It is also important to consider how the scale of the subsidy compares with social housing investment. The chart below shows that discounts are significantly higher than investment in the Affordable Housing Programme (discounts per home are averaging £60,000,[42] compared with £39,000 of grant for affordable home ownership homes under the Affordable Housing Programme).[43]

RTB also represents an expenditure on the government's accounts, whereas grant for affordable homes is held in-perpetuity as an asset (which can be used to borrow against for further housing investment). Furthermore, grants for social housing increase supply, whereas RTB is simply a switch of ownership.

Right to Buy discounts versus the Affordable Housing Programme investment, England



Sources: CIH, Housing Review 2019, Homes England Affordable Homes Programme (2019), MHCLG, Live Table 682: Social Housing Sales: Annual Financial Data on Right to Buy sales for England: 1998-99 to 2017-18

The government undertook an impact assessment of RTB in 2012. The analysis examined the impact on housing benefit as well as the loss of the rental stream and compared it with the sales receipt and reductions in management and maintenance costs. The assessment for increasing the caps on discount rates to £75,000[44] showed that net value of such an option was positive over a 30 year period but negative after 60 years.

However, it did not take account of two important facts: the rising value of the property held by the council and the effects of selling a homes to the PRS to be re-let at an increased rent (thereby raising costs to the public purse through housing benefit). A critique on this assessment is given in the appendix, 'Impact assessment of RTB'.

Concerns were also raised about the impact RTB has on the viability and confidence to build new council homes when they could be sold later at a discount. Indeed, various studies have shown that councils have established local housing companies as a way of avoiding RTB.[45] It was also pointed out to the Commission that RTB will no longer apply in Scotland and Wales.

Results from the British Social Attitudes indicate that RTB is the most popular response when asked what is the main advantage of renting from a local authority.[46] In the Commission's focus groups there was some hostility towards ending the scheme – seen by some as helping people get on the housing ladder. However, the consensus view was that council homes should not be re-let by private landlords.

It was also mentioned to the Commission that any reform to the RTB had to be enforceable. It was said that once RTB homes had been sold on, owners often just ignore legal covenants and other regulations.

The Commission recognises that the Right to Buy remains a popular scheme. However, it is undermining efforts to address affordability, reducing numbers of relets at lower rents and moving properties from social renting to the PRS. Accordingly, the Commission recommends that the RTB is radically overhauled, including giving councils and housing associations discretion over the level of discount they offer, complete control over receipts and the opportunity to restrict any letting by a purchaser (e.g. requiring consent for letting the property).

Voluntary Right to Buy

The impact of policies enabling tenants to buy their homes at a discount has largely been concentrated within the council housing sector. Housing association tenants who entered tenancy agreements after 1989 are assured tenants who, as a rule, do not have the RTB. However, many do have the Right to Acquire - a statutory right generally limited to homes funded with social housing grant or homes transferred to a housing association.[47] Discount rates are considerably lower (under £16,000), with sales less than half the RTB at around 5,000 a year.[48]

The 2015 Conservative manifesto proposed to extend RTB to housing association tenants.[49] However, after subsequent negotiations the National Housing Federation members agreed to a voluntary RTB arrangement. This guaranteed that the housing associations would receive the full sale price for the home and control over which homes were sold.[50] The discounts were initially to be funded by the sale of high-value council housing. However, the government stated in its 2018 social housing green paper that it would not bring the provisions (under the 2016 Housing & Planning Act) into effect.[51]

The government has taken forward its voluntary RTB through a pilot in the West Midlands, pledging £200 million to fund the discounts for some 3,000 properties.[52] Under voluntary RTB, housing association tenants are eligible for the same level of discount as council tenants. Housing association boards have discretion over which homes are sold, but with the presumption that homes will be sold. Tenants apply to buy a property through a ballot. As mentioned, while there has been interest from tenants seeking to buy, reports suggest that relatively few will do so.[53] Nevertheless, the government seems committed to extending the voluntary RTB to other pilot areas.[54]

The Commission was of the view that if the voluntary RTB were to be extended, there should be greater discretion, in line with the recommendations on RTB for local authorities. The Commission also felt that there should also be greater emphasis on ensuring that sales funded additional social housing. Rules state there should be one-for-one replacement, and departmental guidance does outline what counts as an additional home (the new homes, bar exceptional circumstances, cannot be funded through government grant or planning gain).[55] However, the new home can be any affordable housing product, including Affordable Rent and shared ownership products.

If the voluntary RTB is extended to other areas, the Commission recommends that current requirements for one-for-one replacement should be tightened to include like-for-like replacement by tenure -properly funded by government support - so that sales do not result in a loss of social housing.

Ending Affordable Rent

In the 2010 *Spending Review*, the government announced plans to make "social housing more responsive, flexible and fair".[56] Alongside changes to tenure and the management of housing waiting lists, a new Affordable Rent product for social housing was introduced.

As mentioned, Affordable Rents were set at significantly higher levels than previous limits fixed by the sector's regulator and approved by the secretary of state. As well as capital expenditure for new rented homes being skewed towards Affordable Rent, social landlords were encouraged to charge Affordable Rent when reletting their existing properties.[57]

Against the backdrop of austerity, the higher rents reduced the levels of grant needed.[58] Social landlords were expected to use the additional rental income to support investment in new Affordable Rent homes, allocated on the same basis as social rented homes. However, Affordable Rent places greater pressure on household incomes, as well as pushing up the housing benefit bill.

From the outset there were concerns about what the switch to Affordable Rent would mean for affordability of new social housing and the existing stock. The difference in rent levels between social rent and Affordable Rent is stark, with Affordable Rent for all lettings 44% higher.

Comparison of mean Affordable Rents to social rents for new lettings, 2017/18

	1 bedroom	2 bedrooms	3 bedrooms	4 or more bedrooms	All
Social rent	£76.48	£87.17	£97.28	£117.54	£85.42
Affordable Rent	£110.61	£121.30	£134.37	£179.46	£123.39
% that AR is higher than SR	45%	39%	38%	53%	44%

Source: Social housing lettings in England, 2017/18: Continuous Recording (CORE) data; social rents are the mean for both local authority and registered providers.

The gap is widest for larger properties and in high-demand areas, notably London, where the difference is 65% – making Affordable Rent in most places unaffordable.

Comparison of mean Affordable Rents to social rents for new lettings in London, 2017/18

	1 bedrooms	2 bedrooms	3 bedrooms	4 or more bedrooms	All
Social rent	£98.49	£115.38	£130.79	£153.62	£112.10
Affordable Rent	£163.04	£190.09	£210.25	£243.67	£184.61
% that AR is higher than SR	66%	65%	61%	59%	65%

Source: Social housing lettings in England, 2017/18: Continuous Recording (CORE) data; social rents are the mean for both local authority and registered providers.

Higher rents may not immediately translate into affordability issues for households where housing benefit covers their entire rent. However, a higher rent–higher benefit regime brings hazards of a poverty trap, whereby entering employment and losing benefit entitlement can make a household worse off. This can be avoided where the rent can be covered from earnings without impoverishing the tenant.

The Commission examined the CORE dataset of social lets to better understand the impact of Affordable Rent. This showed that even outside of London (for those in one-bed properties and not claiming housing benefit), 30% of households in Affordable Rent properties spent over a third of their income on rent. The figure for those in social rented homes was 18%. This would suggest that as households earn more and no longer claim housing benefit, they are more likely to face affordability problems than those in social housing.

Households not claiming housing benefit paying over a third of income on rent (outside London in one-bed properties)[59]

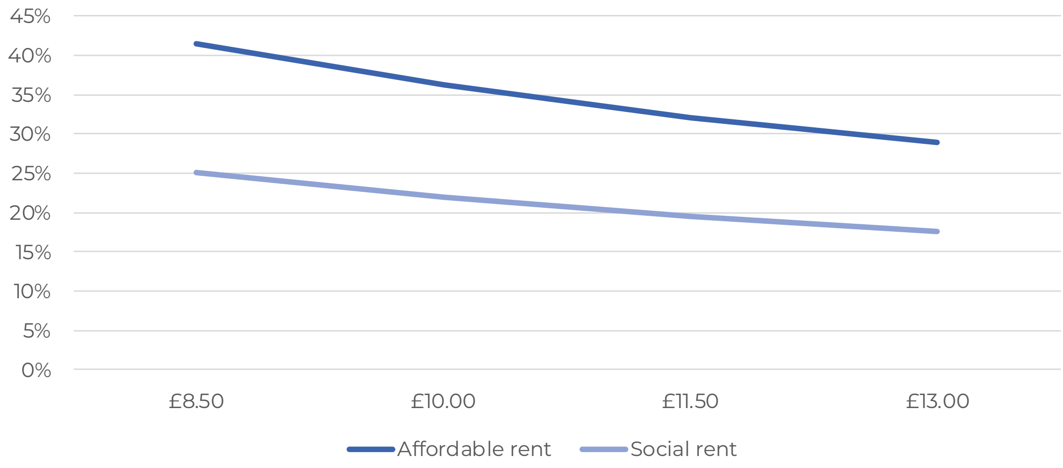
	Proportion paying over a third
Affordable Rent	30%
Social rent	18%

Source: Department for Communities & Local Government (2018). Continuous Recording of Social Housing Lettings and Sales (CORE), 2007/08-2016/17. Figures are non-equivalised.

To understand the impact of housing affordability, the rent-to-income ratio was calculated for a two-person household: first living in an Affordable Rent home, and then paying social rents at average levels for London (2017/18).

Affordability was also examined where one member was working full-time and one part-time and examined across four different pay rates. As the graph below shows, while a household earning around the national living wage is paying around 25% of their income on rent if in social housing, the figure is in excess of 40% for an Affordable Rent home. It is not until the wage rate increases to £11.50 an hour that they are paying below the 33% used by the Commission.

Rent-to-income ratio for a two-person household (one working full-time and one part-time) paying an Affordable Rent and a social rent



Sources: Social housing lettings in England, 2017/18: Continuous Recording (CORE) data; social rents are the mean for both local authority and registered providers. Benefit levels based on Policy and Practice benefit calculator.

NB: Rent is net of housing benefit and HB is not included in the household's income. As it is a two-person household equivalisation has no impact on income levels. Rent is calculated on a one-bedroom property. A full-time worker is classed as working 35 hours a week and a part-time worker 15 hours.

The picture becomes starker still if the person working part-time is made redundant. Even factoring in jobseeker's allowance and housing benefit across all four wage rates, the rent-to-income ratio for an Affordable Rent property is above a third. Meanwhile the household in social rent is paying below a third, even when pay is around the national living wage rate.

Rent-to-income ratio for a two-person household (one working full-time and one claiming JSA) paying an Affordable Rent and a social rent

Sources: Social housing lettings in England, 2017/18: Continuous Recording (CORE) data; social rents are the mean for both local authority and registered providers. Benefit levels based on Policy & Practice benefit calculator.[60]

Affordable Rent effectively penalises those on the margin of the housing benefit system. It increases housing costs disproportionately for low-income households who are in work and not claiming housing benefit. As a result, housing has become more unaffordable for a wider range of low-income households and can act as a disincentive to work.

Across the board the average move from social rent to Affordable Rent is equivalent to a 10% drop in the average income for tenants.[61] This increases the risks that a household is likely to be in poverty. There have also been concerns about the disincentives for mobility within the sector if existing tenants on social rents are offered Affordable Rent properties, which will cost them a lot more.[62]

The numbers affected are not small. While the scale of conversions of social rented homes to letting at Affordable Rent has been reduced from its height in 2014 (with London's mayor intervening to curb conversions in the capital),[63] to date around 116,000 homes have been converted in this way.

Affordable Rent conversions

	Affordable Rent conversions
2012	4,288
2013	23,877
2014	26,918
2015	19,607
2016	15,767
2017	11,547
2018	9,566
2019	4,673
Total (2012-19)	116,243

Source: Regulator of Social Housing, Statistical Data Return, 2018/19

The Commission notes that pressure to charge Affordable Rent and conversions from social rent have lessened, and numbers have fallen by four-fifths since their peak years. Evidence from the G15 London group of housing associations also points out that recently some associations, such as Peabody, have tried to convert their Affordable Rent homes to the cheaper London Affordable Rent.[64]

Given this change, the Commission believes now is the time to end the Affordable Rent product and, where possible and practicable, return the properties at the end of tenancies to social rent or intermediate renting for those on average incomes. This conversion process will require careful handling, perhaps with some transitional support funding and an element of flexibility in rent setting by social landlords.

Converting all Affordable Rent properties at once would come at a significant and disruptive cost: around £400 million a year (equivalent to an average cost of around £1 million per housing association – with costs higher for those in London).[65] Furthermore, the terms of the Affordable Rent tenancies will have been legally agreed between landlord and the tenant, and agreements reached with lenders. Thus, it would not be financially feasible to simply change all the tenancies overnight back to social rents. However, the change could be made over time, with a transition period and phased changes on relets.

The Commission recommends the ending of the Affordable Rent product. If transitional funding is available and where financially viable, social landlords who have built and converted homes to Affordable Rent should aim to return the homes to social rent or otherwise to intermediate rent, when tenancies end.

Build to Rent

The innovative build-to-rent (BTR) sector is fairly small (at around 150,000-180,000 properties) and concentrated in London and core cities such as Leeds and Manchester.[66] However, helped by recent changes to national planning guidance,[67] the sector is growing fast. According to the BPF:

"If the BTR market is able to mature and reach a similar scale of investment as the US multi-family market or the purpose-built student accommodation market, it would create around 15,000 new homes per year in the period to 2030."[68]

Analysis by Savills shows there are now 35,760 build to rent units under construction, most led by PRS providers such as Grainger, Legal & General and Sigma Capital but also involving housing associations, such as Notting Hill Genesis.[69] In some places, nearly a third were completed under permitted development rights, although the Commission was told the figure was lower for newer developments.[70]

The sector is also widely seen as offering secure, high-quality development and good standards of housing management (the developments are usually owned and managed by one landlord). However, BTR is unlikely to be affordable to those on low incomes. Research by JLL suggested that BTR homes are rented at a premium of 8-9% on the price of similar rental homes (although they note the sample is small and could be due to high quality standards).[71] Even without the premium, BTR properties are often tailored to a different market. As evidence from Tower Hamlets puts it:

"BTR developments are in many ways welcome in bringing higher-quality and more stable privately rented housing to the market. However, these advantages currently come at a considerable premium with rents beyond the reach of most people in the borough."

It was brought to the Commission's attention that stamp duty can still be listed as a cost for BTR schemes, even though the properties are not going to be sold. It was said that this skewed the viability calculations against affordable BTR housing.

The Commission welcomes the growth of build-to-rent homes and wishes to see the sector expand in order to provide additional affordable homes. The government should consider tax changes to remove barriers to growth, including ending the stamp duty surcharge for investors in build-to-rent.

PART TEN

Making rents affordable

Lower rent eases housing stress. It also reduces the housing benefit bill and enables extra spending on non-housing goods and services. However, making rents affordable for the long term for existing tenants is particularly challenging, not least given the large numbers of struggling renters who rely on benefits.

As mentioned, unaffordability is worse in the PRS. But it is also a concern in the social housing sector, where the problem has been exacerbated by Affordable Rent and welfare reforms.

Ensuring social rents are affordable

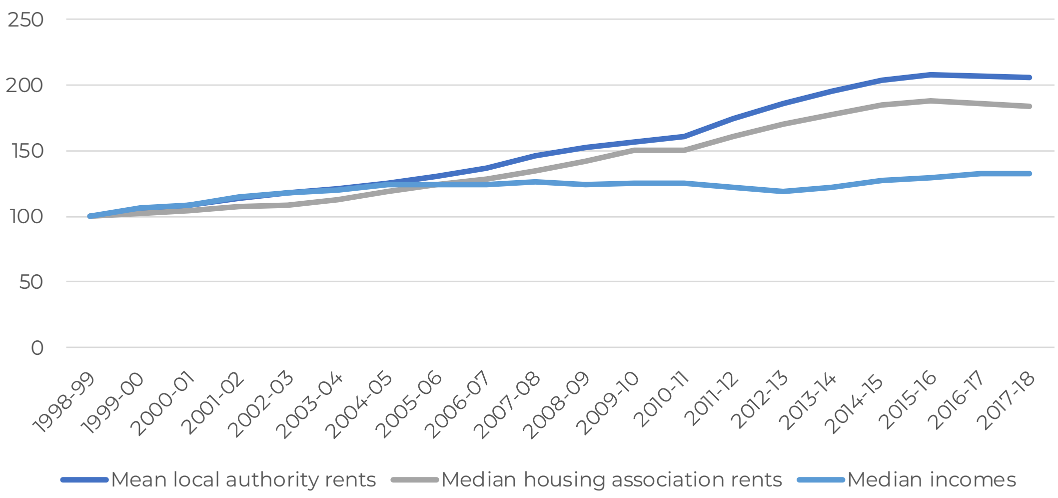
Even though the vast majority of social rented properties are affordable, there are problems for a significant minority. Today, around 13% of households of working age in social housing have rents that are above a third of their income. For some this is because housing benefit leaves them short – and as such reforms to the welfare system, rather than to the rent regime, are required or because they are not claiming what they are entitled to.

Unaffordability issues in the social sector have worsened over the past 20 years, with rents set to rise in real terms. According to Shelter's evidence to the Commission, housing association rents rose from under £47 in 1997 to almost £98 in 2016 (25% faster than inflation over the same period). Similarly, council rents rose from under just over £42 in 1998/99 to almost £88 in 2015/16 (30% faster than the rate of inflation).[1]

Although social rents were cut between 2016 and 2020,[2] the longer-term trend has witnessed cumulative rental growth since 2000 – and that growth has outstripped income growth (see table overpage).

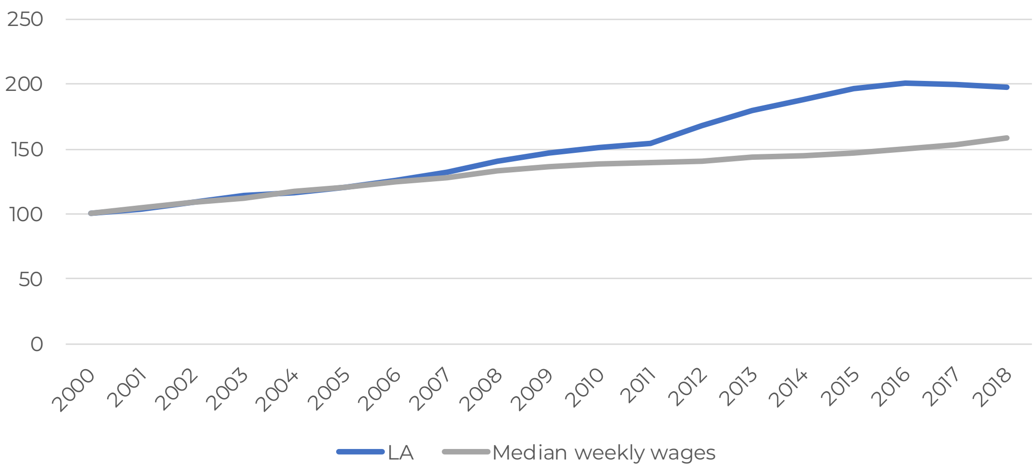
While incomes have been flat since the early 2000s, social rents have almost doubled. As the next table shows, the convergence of council rents with average earnings ended in the mid-2000s. The rent reductions after 2016 have made only a marginal difference to the long-term trend.

Income and social rent growth since 2000, 1998/99=100



Sources: MHCLG Live Tables 702 and 704 and ONS Average Household Income, UK: Financial Year Ending 2018

Average council rents to median weekly earnings (2000=100)



Sources: ASHE 2019 and MHCLG Live Table 702

Although the rent reductions made savings to the housing benefit bill and helped over a million tenants who were not claiming benefits,[3] social landlords told the Commission the decision led to an overall reduction in housing investment (a view shared by the Office for Budgetary Responsibility).[4]

The latest five-year rent settlement in 2017 allows social housing rents to rise with the Consumer Price Index (CPI) plus 1%. Although the return to inflation-linked rent setting was welcomed by social landlords, the Commission wished to explore whether there might be more effective ways of ensuring affordability that will not lead to underinvestment in new housing. In particular, the Commission was keen to promote the idea of an alternative definition (and measures) of affordability linked to local incomes – a *local income-related rent*, equivalised to take account of other determinants.

Principles of affordability for social rents

Social rents have traditionally been based in part on incomes. The formula devised in 2000 was based on average social rents and adjusted for local earnings, property values and bedroom size. As part of the settlement, rents would increase slightly above inflation (originally linked to the Retail Price Index and then CPI), which in "normal" times should be close to wage and income growth. Government also sought to align local authority and housing association rents (rent convergence). This meant that local authorities had additional ability to raise rents which were below those of housing associations, by RPI + 0.5% plus £2 per week.

It is now 20 years since the rent formula was devised and on which subsequent increases (and decreases) have been based. As rent rises have outstripped earnings and incomes, the Commission believes that it is time to assess and revise the formula to ensure that social housing remains affordable over the longer term.

The difficulty is that there are a wide variety of households, employment types and local wages.[5] This challenge of balancing rental affordability is also complicated by the cost of investing in new housing in high-value areas (London's housing costs, for instance, are very different to the rest of country while wages do not differ as much).

One approach the Commission considered was setting rents based on individual incomes, which could help ensure homes are affordable for household circumstances. Although this would have the benefit of more accurately tailoring housing costs to household need (to a third of their income) it comes with downsides.

The Commission was of the view that setting rents for every individual household's need would require continuous means testing, which would be administratively expensive, intrusive for tenants and could act as a disincentive to earn more. Low-income households are also more likely to see fluctuations in earnings, because of their precarious position within the labour market. Rents could also be pro-cyclical, with rises during economically good times and falling when the economy slows: this would also deny social landlords any certainty about rental revenues and thereby affect their borrowing capability (which is predicated on predictable rental streams).

Discounting this as an option still leaves the question: if we adopt an income-based approach, to what income should rents be pegged? Should it be a third of a household's income at the 10th, 20th or 30th percentile of incomes? Furthermore, as social rents are set at a level below housing benefit caps, the question of affordability for tenants is about rent levels for those on low incomes but not those claiming housing benefit.

One way of approaching setting and raising social rent is to look at local earnings. Professor Steve Wilcox, for example, proposed that social rents should be low enough to mean that a household with one person earning the minimum wage would be able to clear the housing benefit eligibility criteria.[6] This way housing benefit exists to support those out of work or working part-time.

As an alternative, Savills, the National Housing Federation and JRF developed the idea of living rents for social housing, which sought to base rents on local wages for lower-quartile full-time weekly earnings, which nationally is similar to a full-time worker earning the minimum wage. They then make adjustment for property size and household composition, and factor in additional support that households are likely to receive from government. Based on this, social rents would be set on a rent-to-income ratio of 28% of gross income (equivalent to 33% of net income).[7]

The Commission contends that this approach to rent setting has merit and has examined what rent might be deemed affordable for tenants today (based on the same principle that rents should be affordable for a typical working household containing low-paid workers). Under this system, social landlords would be guided to match affordability to local circumstances.

The Commission would not want to lay down precisely what rents would be appropriate in different circumstances. However, for illustrative purposes we have set out (in Appendix: "Rents and Local Income Affordability") the kind of approach that might be taken.

Some rent flexibility is essential, not least because some tenants may wish to pay slightly more if they had a choice over housing characteristics and location (for example, some may prefer to be close to public transport). Any new formula for rent setting should therefore seek to ensure that there is some local flexibility, to provide choice and reflect the different characteristics of the home.

As variation is helpful, the Commission therefore suggests that a range of between 25% and 33% of local incomes for those in low-paid work is used to guide social landlords when setting rents. This would ensure housing affordability while also giving social landlords and tenants flexibility around rent levels.

To ensure that rents stay within the upper limit of affordability, the Commission is attracted by the idea that the Regulator of Social Housing could place a duty on housing association boards to be mindful when seeking to set rent rises. This duty would be based on a recommended approach to setting LIRR – as outlined in Appendix 5.

Rebalancing of rent to incomes

The Commission is aware of the need for certainty in order to make meaningful business and investment plans, and felt strongly that undoing the current rent settlement would cause uncertainty and increase the cost of capital for housing associations seeking to invest in new homes.

Setting rents according to local earnings could create similar danger, as incomes may fluctuate. We therefore recommend that the Regulator of Social Housing provides a clear set of assumptions about income levels so that social landlords can make firm plans. The rent formula could then be adjusted on a periodic (perhaps five-year) basis. This approach would provide medium-term certainty and not create a scenario whereby a sudden fall in bottom-decile earnings results in a sharp drop in rents.

In most areas this formula would have little effect on the overall income from rents for social landlords. However, the Commission recognises that in the case of London, such reforms could result in much lower rental revenue for social landlords. This would have a detrimental impact on investing in new and existing housing stock. It is therefore suggested that the duty should be phased in over a period (perhaps of five years) to meet the affordability threshold.

As mentioned, the government has determined that rent increases in social housing will be limited to CPI+1% per year from 2020-25. Since earnings are expected to rise above inflation – government assumptions are for CPI at 2% and wage growth at 4% – applying the LIRR formula would be unlikely to lead to a reduction in the incomes of social landlords.

Additional flexibility may be needed for lower-demand areas. For example, in the North East the average weekly rent for a one-bedroom social rent property is only 15% below that of the lower-quartile private rent. In the areas where private rents are very low, special flexibility could be granted to keep social rents below the target range to ensure that social housing remains attractive.

We recognise the need for the current arrangements for increases to existing social rents – at CPI+1% a year which accord roughly with increases in earnings - until 2025. Thereafter, the government should work with the social housing sector, tenants and the Regulator for Social Housing to design a sustainable future rent settlement that takes into account affordability for tenants and the welfare system, while delivering long term investment in existing and new homes.

Rent regulation in the PRS

Since problems of housing affordability are particularly acute for struggling renters in the PRS, it is not surprising that there are calls for rents to be constrained. In the Commission's focus groups, rent controls were the most popular of any proposed intervention. Similarly, in a YouGov poll following the Mayor of London's call for new powers to set rent controls under the auspices of a London private rent commission, some 68% of Londoners were in favour of rent regulation of some kind (only 16%

were opposed to the idea).[8] Polling for Shelter had similar results, with the most popular option being rent controls within tenancies.[9]

The increase in the size of the PRS has been accompanied by a noticeable rise in the rent-to-income ratio over the longer term within the PRS. Median rents to incomes since 1990 have risen from 24% to a third today, and research by for the Commission suggests over that period around half of the increase in the number of households paying over a third of their income on rent is due to higher rents (rather than simply more people being in the PRS).

Although advocates of rent controls focus on the potential benefits for tenants, there could be advantages for landlords as well. For instance, introducing rent controls or stabilisation measures could help reduce the turnover of tenancies. Tenants would have an incentive to stay in the property, maintain their home in a decent state and reduce the levels of voids. Furthermore, it may have wider benefits in respect of the housing benefit bill and consumer spending.

The BPF told the Commission that the larger, professional landlords backed by institutional investors were not averse to rent stabilisation controls, perhaps with longer-term tenancies linked to CPI+1% (compatible with the social rent formula). It was said this suited the business model of institutional investors.

The Commission was told that any form of rent control required more local information on rent levels. Although the Valuation Office Agency publishes tables on local rents, these are only available at broad levels and do not differentiate by housing characteristics. Improving the data and access to information (perhaps in a similar way to the “rent mirrors”, or Mietspiegel, rent tables in Germany) could strengthen the bargaining position of tenants.[10]

The New Economics Foundation is calling for a national landlord and rents database – an open-access record of all landlords, their properties and associated rents.[11] This could be part of an independent regulator of private rented housing, with rent control and enforcement powers.

Comparisons of rent regulation

The Commission wished to consider whether constraints on market rents were a practical proposition, and whether they would, in practice, improve affordability.

Rent controls have been imposed in the UK in earlier times of housing shortages: both world wars led to tight rent regulation, and prior to the implementation of the Housing Act 1988, most of the PRS was still subject to rent control (a few protected, pre-1988 tenancies remain to this day).[12] The post-war demise of the sector is often attributed – somewhat simplistically – to this intervention in the market; and equally, the dramatic revival of the sector is put down to the ending of rent controls (for the shorthold assured tenancies that comprise virtually all new PRS lettings).

Other countries have introduced controls in various forms over many years. Scotland, for example, has recently followed Ireland in bringing in legislation to limit rent rises within tenancies.

Rent controls in Scotland and other countries[13]

Germany

Germany is well known for the size of its market in affordable rental accommodation – even if there have more recently been increased concerns about private rent levels in cities such as Berlin. The country has had a variety of forms of rent control, but since the 1970s has controls which limit rent levels within tenancies. However, after growing pressure, the grand coalition in 2015 introduced regulations for some areas which limit rises between tenancies, and reduced the allowable rent increase. In tight housing markets rents are limited to 10% above a comparator lease. To prevent underinvestment in new and existing properties, new lease agreements for new developments and extensive modernisation are exempt from these regulations.

Unites States: New York

In New York City around half of rented properties are rent regulated. A Rent Guideline Board determines the maximum rent increase for one- and two-year leases and seeks to limit rent increases between tenancies. The city has introduced reforms which have sought to deregulate certain sections of rented accommodation for renters on high incomes or properties with rents above a set threshold.

Netherlands

Rents are highly regulated in the Netherlands. Regulations apply where rents are below a certain threshold. Rents are based on quality points, including quality and proximity to local amenities, and maximum rents are set. There have been some moves at deregulation for temporary tenancy contracts but this can only be negotiated once, after which it becomes a permanent contract.

Ireland

Ireland has historically had light-touch regulation. However, since the 2004 Residential Tenancies Act rents have been regulated within tenancies, with increases having to be in line with the market rent (three examples of comparable properties must be provided). After the financial crisis, legislation was introduced to limit rises in areas where rents were high and rising, called rent pressure zones. In these zones rents can only rise by a maximum of 4%.

Scotland

The Scottish government introduced the potential for limiting rent rises within tenancies, with measures very similar to those in Ireland. In 2017 a new form of tenancy came into force, the private residential tenancy, which replaced assured and short assured tenancy agreements. As part of open-ended tenancy, rents can only rise in line with market prices, with a tenant having recourse via a rent officer if they believe the increase is too high. Scotland has also introduced the ability for councils to apply to the government to designate a rent pressure zone within which the minimum cap on rents would be CPI+1% per year (with ministerial powers to increase that cap). The cap applies for up to five years and applies only to existing tenants with the new private residential tenancy. There are flexibilities on rents for properties which have had improvements made.

Pressure for constraints on market rents varies from area to area. In some parts of the Midlands and Northern regions, for example, private rents are at levels similar to the social rents of councils and housing associations. In London, by contrast, market rents can be three times the level of adjacent social housing. In tackling affordability problems, different measures may be needed for different places.

Rent regulation

The Commission considered the different options for rent regulation: rent setting, rent caps and rent regulation within tenancies.[14]

i) Rent setting: The most interventionist approach involves control by the state – locally and nationally – over the setting of rents, for example by employing rent officers charged with deciding "fair rents". Historical precedent and economic theory suggest this form of rent control is likely to have negative consequences. With a rent ceiling in place, demand for rental accommodation increases but supply falls. In areas of acute shortages, rent controls mean demand is rationed by sitting tenants not moving, which excludes new entrants, resulting in a misallocation of housing resources. And experience in other countries shows illegal or questionable behaviour to exploit the below-market rental scene: bribes, non-refundable deposits, payments for fictitious furnishings and fittings, discrimination, etc.[15]

The fear is also that if the profitability of rental housing falls, private-sector investment will be correspondingly reduced. In areas of less acute shortage where rents are relatively low, this means less investment in the maintenance and modernisation of older stock. Many towns and cities in deprived areas are already suffering from underfunding in streets of privately rented property. A withdrawal of investment would undermine efforts to regenerate these neighbourhoods. Nor is it likely that the properties will be acquired by first-time buyers; more probable is purchase by less responsible landlords, who can extort a higher yield by spending less.

In areas of high demand the worry is that rent controls would deter the institutional investment now going into construction of new (build-to-rent) developments. Even if a rent-setting regime makes provision for higher rents in particular circumstances, the disconnection from the market seems likely to deter investment.

ii) Rent caps: Rent levels can be regulated by capping increases, both for continuing tenancies, where the tenant remains in situ, and for new tenancies, when one tenant moves out and another moves in. Rent rises in all these circumstances can be set in line with an index linked to inflation. This form of rent regulation covering rent increases both within and between tenancies affects the whole PRS market, stabilising rents across the board.

Regulation of all rent rises shares some of the downsides of rent setting by a public agency: over time it removes the link to the market and it requires quite extensive enforcement. But it gives greater certainty to the sector (so long as the chosen index is not subject to sudden change). And by regulating rents after a property is relet on the same basis as when the property is lived in by the same tenant, it removes the incentive for a landlord to evict one tenant in order to obtain a significantly higher rent from a new tenant.[16]

The Commission has examined the likely impact of this approach, in terms of its effectiveness in improving affordability. Our analysis shows what would have happened if there had been a national policy of indexing rent rises from 2000 to 2017 (using Family Resources Survey data). We have chosen the index of household incomes (rather than a link to prices) in accordance with our contention that linking rents to incomes is the fairest approach.

This calculation shows that pegging rent rises in this way would have led to much lower rents today: nearly half as many PRS tenants would be paying over a third of their incomes in rent (780,000 instead of 1.3 million). This is the result of incomes not keeping pace with rent rises over this period.

With hindsight, regulating rent rises back in 2000 would have been beneficial for struggling renters. But the impact of this form of rent regulation might be less significant going forward: it is far from certain that the past economic condition will be repeated (market rents in many areas, for example, have not been increasing rapidly in recent years).[17]

iii) Regulation within tenancies: The lightest form of rent regulation involves limiting rent rises but only during ongoing tenancies. The rent can be reset at the prevailing market level wherever there is a change of tenant or after a defined period of time.

The Commission's modelling of the impact of in-tenancy rent regulation draws on work by Cambridge academics who analysed the average length of residency of all PRS tenants.[18] This research indicates that 85% of tenants move within four years, and some 70% stay less than two years.[19]

Because turnover has been so great, limiting rent increases within tenancies over recent years would have only had a modest impact on affordability. Our figures indicate that some 70,000 renters today would not be paying in excess of a third of their income on rents if, over the period 2000-17, rent rises had been limited within the tenancy in line with household income growth.

Rent stabilisation

Even modest benefits from regulating rent rises could be undone if landlord-tenant law continued to provide inadequate protection. Landlords who wanted to raise rents by more than a permitted (indexed) amount could, for example, simply end the tenancy and relet the property at a market rent.

The current legal position is expected to change with the government's commitment to removing section 21 "no-fault" evictions. But unless there is some form of regulation over rent rises within tenancies, unscrupulous landlords will be able to force tenants to move out, despite the change in the law, simply by insisting on huge increases in the rent.

The Housing Act 1988 (Section 22) does make provision for tenants in assured tenancies to go to the First-tier Tribunal if they believe their rent is being increased beyond local market rents. However, the Commission was told that the tribunal used the prevailing market rent as a benchmark. Tenants who live in areas where rents are rising faster than wages get little to no protection. In addition, the incentive for tenants to request repairs is blunted because landlords would be awarded the market rent as soon as they brought their property up to standard.

Amending this existing provision would seem a practical way to introduce rent regulation that constrains rent increases in line with an indexed amount (reducing the scope for disputes over market rental comparisons).

The Commission was told that, in fairness to landlords – and to remove any incentive for them to find reasons to evict existing tenants and relet properties on a new tenancy – it was important to have a time limit on this regulation. For rents subject to an increase-linked cap which are over time diverging from market rents, the Commission sees the merits of rents being recalibrated every five to 10 years in line with the local market. At current levels of turnover,[20] this would cover 85% of tenancies; even if tenants in the future stay put for much longer, it is likely this change would still provide security for longer. It is to be hoped it would provide security against big rent hikes for the majority during the full duration of their tenancy.

The Commission concludes that rent controls in the form of rent setting by a governmental agency would not be a sustainable solution to the problem of housing affordability. Trying to reduce private-sector rents to levels comparable to those of social landlords is an unrealistic prospect and fails to recognise that for those on lower incomes, a subsidised social housing product is what is needed in most parts of the country.

Nor does the Commission believe that forcing landlords out of business by making rent levels uneconomic is the way to redress the imbalance between the private and the social sectors. To force a mass exodus of landlords would be counterproductive. Other action to raise and enforce standards is arguably a better way to address bad practice, as discussed in the section on “Affording Housing Quality”.

Nonetheless, the Commission views the ending of “no-fault” section 21 evictions as requiring rent regulation in the form of constraints on rent rises for existing tenancies. To give tenants security that rent increases will not force them to give up their tenancy, rents will need to be constrained.

A unified approach

The Commission calls for a unified approach to the problems of the PRS, ensuring that good landlords are not unfairly treated and that the link between rent increases and the threat of rent increases and concerns over housing security and quality are connected.

Only a minority of landlords will raise rents as much as they can – often prompted by their letting agent – and in a way which impinges on housing security and quality. However, as Generation Rent pointed out:

“Unscrupulous landlords will use the threat of a rent increase as a means to bully tenants into accepting unsafe accommodation or poor treatment.”[21]

The Commission believes that tenants should have the same expectations about their rent (and housing quality and security) whether their landlord values longer-term tenants or not. Tenants should have the confidence to complain about disrepair without risking being priced out of their home.

The Commission does not see changes to security of tenure and rents as raising problems of expense or excessive bureaucracy. The ending of section 21 eviction procedures, for example, should remove tenants’ fears of “retaliatory evictions” by landlords. Constraints on rent increases would be part of the terms of all future (assured) tenancies. The main concerns – affordability, security of tenure and housing quality – must be addressed together.

The Commission recommends that new rent regulations be introduced alongside the legislation ending section 21 “no-fault” evictions. Annual rent increases would be limited to an index of income growth for a fixed period.

The Commission recommends that charging more than the permitted rent increase would be an offence, with the landlord facing a fine and having to return the excess rent to the tenant. Enforcement will be needed where the law is broken with proposed rent regulation by the First-tier Tribunal (or new housing courts if these are established).

PART ELEVEN

Affording housing quality

The Commission recognises the important link between affordability and non-decent homes, which is why quality standards are included as part of the Commission's alternative definition and measures of housing affordability.

The Commission was told that substandard housing was both a cause and symptom of unaffordability. As reported by Placeshapers:

"People consider housing affordability hand in hand with housing quality. For some, being unable to afford housing means having to live in terrible conditions with hugely detrimental impacts on their physical and mental health."

The Commission is also mindful that newly built homes remain significantly less affordable than existing properties[1] and that investing in improving the country's ageing housing stock is essential to sustaining affordability. According to the LGA, the average new home in England will have to last 2,000 years if the current rate of house building and replacement continues.[2]

The demand for home improvements and adaptations is set to rise as the housing stock and population ages and the number of disabled people increases.[3] This is a serious concern, affecting all tenures – including home owners – and all parts of the country (and especially in poorer areas). As mentioned, housing in poor condition not only harms people's health and well-being and relationships but is costly to society.

Evidence from the Association of Retained Council Housing also makes the important point that in discussions of affordability, consideration should be given not only to standards in relation to space, safety and amenities, but also to location. Sometimes households are forced to make trade-offs between lower rents and higher transport costs. Housing stress has pushed more people into this position. According to the RTPI, many areas are at risk from incremental development in locations far from jobs and poorly served by public transport. This fragmentation creates stress and adds to living costs.[4]

Climate change

Reducing carbon emissions from housing is a top priority for the government. However, according to the latest report from the government-sponsored Committee on Climate Change, UK homes are not fit for the future and efforts to adapt the housing stock for higher temperatures, flooding and water scarcity are falling far behind the increase in risk from the changing climate.[5]

Improving the quality, design and use of homes will not only provide health and well-being benefits, but lower housing costs. According to the Committee, closing the energy use performance gap in new homes (the difference between how they are designed and how they actually perform) could save between £70 and £260 in energy bills per household per year.[6]

The Commission is mindful that achieving near zero-carbon homes goes beyond improved energy efficiency in homes and must also cover wider resource use, such as water efficiency, building materials etc. Meeting the challenge will require more investment, higher building standards and stronger controls.

While consideration of the range of measures and standards needed to make all housing low-carbon and resilient to climate change is beyond the remit of this report, the Commission agrees with the five actions proposed in the Climate Change Committee's report on UK housing:

- *Performance and compliance*. The way new homes are built and existing homes retrofitted often falls short of stated design standards.
- *Skills gap*. The chopping and changing of UK government policy has led to a skills gap in housing design, construction and in the installation of new technologies.
- *Retrofitting existing homes*. Ensuring existing homes are low-carbon and resilient to the changing climate is a major UK infrastructure priority, and must be supported as such by the Treasury.
- *Building new homes*. New homes should be built to be low-carbon, energy- and water-efficient, and climate-resilient.
- *Finance and funding*. There are urgent funding gaps which must be addressed, including securing UK government funding for low-carbon sources of heating beyond 2021, and better resources for local authorities.

The Commission endorses the imperative to reduce carbon emissions in homes and across the building industry. But the government must do more and should take forward the key actions suggested by the independent Committee on Climate Change.

Home improvements

Essential home improvement grants for home owners, linked to housing fitness and health, are not new; they date back to the late 1940s[7] and have featured repeatedly in government programmes, such as the Private Sector Renewal programme. Today, support is mainly at the discretion of local authorities and support is a mix of loans and grants.[8]

Evidence to the Commission suggests that there are significant invest-to-save opportunities in the area of housing and health. An impact assessment of Decent Homes and Supporting People programmes led by Birmingham City Council found that a £12 million programme returned £24 million in savings. The research found that interventions aimed at improving cold homes and reducing falls delivered the quickest returns.[9] The BRE's analysis suggests that over 30 years the investment in reducing non-decent housing would pay for itself.[10]

In the past councils played an important role in helping low-income home owners (often older households) bring their properties up to a decent standard. However, central government funding has been cut back since 2010.[11] Councils retain discretionary powers, but they lack the resources they once had.

One of the main channels for home improvements has been the Better Care Fund (which processes the Disabled Facilities Grant). Financial support takes the form mainly of renovation grants, energy efficiency/insulation grants, empty home loans and home adaptations, with much of the focus on removing category 1 hazards (under the HHSRS). Some home owners also benefit from the government's Green Deal programme and from specific external funding, such as NEA grants for energy efficiency improvements.

Disabled Facilities Grant

The DFG is for health-related home improvements, which are typically requested via a social services assessment. It is a mostly means-tested grant distributed to around 40,000 homes nationally. Most grants go to owner-occupiers, although a third go to social landlords (under 10% goes to tenants in the PRS). The upper limit is £30,000, although the average grant is £7,000 (with local authorities directly contributing on average around a third). In some areas DFG is offered on a priority points system. DFG central government funding has increased since 2012/13 to £505 million, with relatively higher allocations to the North.[12] However, DFG grants completed between 2010/11 and 2014/15 fell and previous government/BRE estimates from 2011 suggest that around more than four times the funding (£1.9 billion) is required each year to meet demand.[13] It is also widely reported that awareness of the DFG is low.[14] According to the Equalities & Human Rights Commission, advice and support is patchy and people report that they have nowhere to turn when their housing is unsuitable.[15]

The Housing Made for Everyone coalition highlights the chronic shortage of homes that are accessible and adaptable. They are calling for regulatory change to ensure that all new homes are built to *Building Regulations* Volume 1, M4, Category 2 standards – meaning they have basic accessibility features that make them suitable for a range of occupants, and can be easily adapted to meet further requirements.[16]

The not-for-profit Home Improvement Agencies (HIA) are helping low-income households live independently, partly through help with the DFG and handyman accreditation schemes.[17] However, while the Commission found that the HIAs offered a valuable service, they lack sufficient funding to expand their coverage. Research by the Smith Institute found that coverage by the HIAs was haphazard and that most struggled to meet demand.[18]

The Commission welcomes the government's plans for a national strategy for disabled people. The strategy must include greater support for home improvements/adaptations.

Improving quality of the PRS

Non-decent homes are a feature of all housing tenures, but especially prominent in the PRS where around a quarter of the homes in the sector (1.3 million households) are non-decent – more than double the rate for social housing.[19] The Commission was also told that poor conditions and the failure to fix repairs is often unreported.[20]

Housing quality in the PRS is most pronounced in weak housing markets and where there are wide disparities between housing markets. Research by Arc4 on the PRS in Greater Manchester, for instance, concluded that the unintended consequence of the growth of the PRS in the inner suburbs has been to further reduce opportunities for affordable home ownership. This is in part because of the relatively high yields in the PRS in deprived neighbourhoods. The research by Arc4 concluded that:

"There is no evidence that the general increase in (real) rents in lower-value PRS has improved the quality of the privately rented housing stock."[21]

Concerns about unfit homes in the PRS coalesced last year around the implementation of the Homes (Fitness for Human Habitation) Act 2018.[22] The legislation is expected to improve standards and create more of a level playing field for landlords. However, the Act limits the definition of disrepair and many tenants continue to struggle to secure adequate redress without stronger enforcement – a problem compounded by cuts to legal aid.[23]

Local authority enforcement remains weak, with much of the capacity and capability to improve and enforce housing standards hallowed out.[24] According to Generation Rent, the average local authority receives around 400 complaints a year, of which 60% were inspected.[25] The Residential Landlords Association similarly reported relatively low levels of inspection and prosecutions, with considerable differences between places.[26] The CIH claims enforcement activity by councils was reduced by a fifth over the five years to 2015/16, partly because costs were often difficult to recover.[27]

The Renters Reform Bill (2019/20), which includes a commitment to clamp down on rogue landlords, will hopefully provide greater protection for tenants. However, the Commission was told that a major problem is the lack of understanding and awareness among landlords about their legal duties regarding housing standards, especially concerning gas and electricity safety.[28]

This lack of awareness about rights and responsibilities extends to tenants, in part owing to the complexity of multiple provisions in dozens of statutes and regulations which are not fully covered by tenancy agreements. The Law Commission did propose consolidation of landlord/tenant law,[29] but its recommendations have not yet been taken forward in England. The Commission was told that without simplification of the law, efforts to improve standards through a consumerist approach seemed destined to stall.[30]

Improving quality standards in the PRS will require significant investment, on Commission's estimates around £9 billion[31] (although there are wide regional variations).[32] The Commission was told that enforcement was a "postcode lottery".[33] It was also noted that local authority support to private landlords had fallen sharply in recent years. In 2016/17, for example, around 7,100 private rented homes were improved with the help of a local authority grant or loan – equivalent to only 0.5% of non-decent homes in the sector.[34]

There may be an understandable reluctance to use public funds to support landlords who have failed to invest in their homes. However, landlords could be granted easier access to cheap loans to improve housing quality (perhaps as a revolving loan fund). As this support would be a loan not a grant, the cost to the taxpayer would be minimal.

The MHCLG Working Group on Regulation of Property Agents has proposed the extension, in due course, of the regulation of letting agents to cover landlords as well. The Commission welcomes this proposal.

The government should consider offering targeted tax relief to private landlords who sell to their tenants, with incentives to sell occupied properties with sitting tenants if they are not in a position to buy but wish to stay. If landlords evict their tenants to sell or move back in, they should pay the tenants' relocation costs, to minimise hardship.

The Commission recommends that the government undertake a review of measures to improve both affordability and quality in the PRS. This could include improving the information, inspection and redress systems as well as examining the case for tax incentives to bring properties up to the Decent Homes Standard without involving a rise in rents to unaffordable levels.

A national landlord register

Most landlords view their role in investment terms – profit is the defining motive in most cases.[35] As such, the sector is highly sensitive to cost pressures and how yield rates might be impacted by tax changes and tighter regulation.

There is also a lack of information about landlords themselves. Data on private rents is often poor and it is hard for those enforcing standards to know whether the property is owner-occupied or rented. At a local level, the Commission was told that selective licensing by councils had generated information and aided enforcement of quality standards. But these schemes only apply in a minority of councils, and even then do not always cover the entire local authority area.[36] Moreover, the terms and costs to landlords vary – creating extra cost and confusion for landlords operating in several areas – as does the council's subsequent enforcement (or lack of enforcement).

However, the Commission was also told that local licensing schemes might be more effective in some cases in combating poor standards and focusing resources in problems areas, and could be self- financing as landlords were compelled to pay an annual charge.

Several submissions of evidence called for the establishment of a national landlord register to meet basic conditions. This could take the form of a MOT-style licence (as recommended by the Rugg review).[37] Landlords who fail to meet certain standards or are consistently in breach of regulations could be barred from operating. Crisis, for example, told the Commission that a national approach to requiring basic standards could provide consistency and greater effectiveness, requiring landlords to submit data annually on rent levels for their portfolio by property size. The Commission also heard that a register could include information and training to ensure landlords knew their rights and responsibilities (a view shared by a review for MHCLG),[38] as well as mandatory registration for short-term lets, including holiday lets.

As mentioned, the PRS is populated by large numbers of amateur landlords. The Commission was concerned by this and questioned whether an individual should take on the task if they could not afford to pay for professional management and did not have the time or mindset to be a professional landlord.

The Commission thought that idea of a national landlord register should be developed, perhaps building on existing voluntary schemes (such as the National Landlords Association's accreditation scheme, which is based on best management practices). A provision could be introduced whereby landlords who are unable to achieve the standard of competency can work through a properly qualified agent.

The Commission recommends that the government examines the case for a national mandatory professional standard of competency in the PRS. Private landlords would have to demonstrate their credibility and a professional standard of management on a similar basis to the regulation of letting agents. The Commission also recommends that a new national landlord register (run by councils but freely open to the public) be established to improve standards within the PRS.

Safe and decent homes

According to landlord surveys, the proportion of non-decent homes in the social housing sector more than halved between 2001 and 2009 to around 14.5% of the stock,[39] with the biggest improvement in absolute terms in the local authority stock. That trend continued, with net reduction of 300,000 since 2010 – mainly at the social landlords' own expense. Figures from the English Housing Survey present a different picture of the scale of the challenge, with higher rates reported – currently 12% of the stock. Furthermore, the data suggests that progress toward all homes being at the decent standard has stalled.[40]

The Commission's estimates based on the English Housing Survey suggest that bringing all social housing up to the Decent Homes Standard would cost around £2.6bn.[41] This is considerably less than the investment made in the 2000s under the previous multi-billion Decent Homes Programmes,[42] but still equivalent to half what the housing associations as a whole spend each year on repairs and maintenance.[43]

The Grenfell Tower Inquiry (now in its second phase) and the Independent Review of Building Regulations & Fire Safety (Hackitt review 2018) are expected to usher in major (and arguably long overdue) changes in building and fire regulations, including higher standards and better enforcement. The total retrofit costs are unknown, although the London housing associations in the G15 put the figure for their combined stock alone at £6.9 billion.[44]

The Commission believes that everyone should live in a safe, decent home and urges the strongest possible action from government to tackle the multiple failures that caused the Grenfell Tower tragedy.

The Commission welcomes the government's plans to review the Decent Homes Standard. A Decent Homes 2 fund should be established to help bring all social homes up to a Decent Homes Standard by 2025. This could include eco-standards necessary to help meet the UK's climate change targets and reduce fuel poverty.

Estate regeneration

Estate regeneration can transform communities and deliver more affordable homes. But it can also lead to higher housing costs, especially in areas where development costs are already high. The concern is that local residents can be priced out of their neighbourhoods and incoming tenants may face much higher rents.

The Commission was told that although the trade-offs involved in estate regeneration were often challenging, involving residents in decisions that affect their lives was essential. It was said that giving residents a voice and direct influence via formal or voluntary estate regeneration ballot (such as those introduced by the Mayor of London for publicly funded schemes in 2018) was a positive way forward. The Commission agrees and supports the use of resident ballots as a funding condition for major schemes.

PART TWELVE

Housing welfare

As the Commission's definition of affordability outlined, meeting the rent for many on low incomes rests on adequate welfare support. Even where rent after housing benefit represents a small proportion of income, there are still likely to be affordability issues if incomes are too low. In such circumstances housing costs will deepen poverty and cause material deprivation.

An adequate and decent social security system is therefore essential to addressing housing affordability problems. Clearly there are wider questions about the level and distribution of earnings and incomes, which are central determinants of housing affordability. However, the Commission's work is centred on direct housing costs and direct support for meeting those costs through welfare policies and programmes. There are a set of pressing issues around the bedroom tax and the benefit cap, but the Commission focused its attention on universal credit and local housing allowance rates.

Local housing allowance

Rents in the private sector are much higher than in the social rented sector. As a consequence, when comparing like for like, those on lower incomes in the PRS are more likely to qualify for housing support.[1] Indeed, the housing benefit system has to work much harder to meet the costs of housing low-income households in the PRS. As CIPFA put it:

"There has been a steady rise in the cost of government support for private renters via the benefit system. Although caps and other measures have been introduced to attempt to limit this, a recent LGA report demonstrated that the overall bill to government would now be less if the investment had been made in social housing rather than supporting individuals through benefits."[2]

As the PRS has grown, so too has the number of households claiming housing support. In 2003/04 some 19% of housing benefit claimants were in the PRS; by 2016/17 that figure had risen to 30%.[3] Analysis of English Housing Survey data suggests that around 1.6 million households in the PRS are in poverty. Of those, 600,000 are claiming housing benefit,[4] and for the majority of those (500,000) the benefit does not cover all their rent.[5]

The problems facing households in the PRS are then not due simply to rising rent levels but also to welfare reform. For example, on its introduction in 2008, local housing allowance (LHA) was limited to the amount it cost to rent a home at the 50th percentile. This meant private renters would have housing benefit which covered homes with a rental value in the bottom half of the distribution. Limits varied according to location (broad market rental area) and were based on the size of the property, with eligibility and amounts determined by need. However, since then the levels of support have been progressively reduced.

In 2011, the maximum a rental value a tenant could claim was reduced from the 50th percentile house price in a broad rental market area to the 30th (so LHA would cover rental costs for properties in the bottom 30% by price). LHA has since been limited to CPI (rather than in line with rent rises) and then increased by 1% in 2014 and 2015. Other reforms were also introduced, which created housing stress, including restrictions on eligibility for young people (such as the shared accommodation rate for under-35s). These austerity measures often made it difficult for claimants to access the PRS and have been widely identified as a cause of homelessness.[6] Among councils surveyed for the Crisis Homelessness Monitor, for example, the majority of local authorities felt that there would be a significant increase in homelessness owing to freezes in LHA.[7]

There have been measures to mitigate these changes, such as targeted affordability funding (TAF), focused on areas where rents were high. However, recent studies have shown that the TAF had a "negligible impact" in eliminating the gap between housing benefit and actual rents. CIH research, for example, showed that despite TAF, less than 10% of LHA rates now covered the rent of the cheapest 30% of private homes.[8]

The net effect of lowering LHA rates has been to reduce the number of homes that a household can afford in a particular area. Research by Crisis and the CIH assessed PRS affordability compared with LHA rates in 2018/19 for households requiring one-bedroom, two-bedroom or shared accommodation. The research found that that for households needing help from housing benefit or universal credit to meet private rents, less than 20% of the market was affordable to all these household types in six in 10 broad rental market areas across Great Britain. In over nine in 10 areas, housing is unaffordable to at least one household type.[9]

Their research found the situation was most acute in London and the South East but certainly not confined to these regions. In most English regions LHA rates are failing to cover at least 20% of rents in most of the PRS. There was also found to be serious affordability problems around larger cities. The table below highlights some of the largest gaps between rents at the 30th percentile and LHA rates for families in two-bedroom homes across the English regions.

The Commission welcomes the pledge to end the LHA freeze beyond March 2020. However, this is unlikely to improve the affordability challenges low-income private renters face, not stop it getting worse. To do that LHA rates would need to increase to cover a larger share of the rental market. A cost-benefit analysis by Alma Economics estimated that the cost of returning to the 30th percentile was likely to rise to £1.9 billion a year by 2024/25. However, the analysis also outlines significant savings to the government, which more than offset the cost of the uprating. The net impact would be a gain of £1.3 billion by 2024/5, taking account of social welfare and the financial benefits of more disposable income and savings from reduced rates of homelessness.[10]

Areas with LHA large shortfalls in two-bedroom accommodation by region

Region		Low-affordability areas (broad rental market area) for small families (% figure shows the proportion of the private rental market affordable within 2018/19 LHA rates)	Amount households have to pay per week on top of LHA to afford 30% of the market
North East	Northumberland	17%	£3.45
	Tyneside	18%	£3.45
North West	Southern Greater Manchester	7%	£15.67
	Central Greater Manchester	11%	£16.95
Yorkshire & the Humber	York	12%	£13.35
	Harrogate	12%	£12.66
East Midlands	Northants Central	3%	£17.46
	Northampton	5%	£19.49
West Midlands	Rugby and East	1%	£23.82
	Warwickshire South	6%	£17.74
East of England	South West Herts	1%	£38.77
	Cambridge	2%	£30.20
London	Central London	0%	
	Inner East London	2%	£56.80
South East	Brighton and Hove	5%	£30.74
	Guildford	9%	£30.19
South West	Bristol	1%	£39.57
	Bath	7%	£34.14

Source: CIH Missing the Target? Is Targeted Affordability Funding Doing Its Job? (2018)

It should be noted that the benefits of LHA uprating are likely to largely go to tenants rather than to landlords. Research into earlier LHA reforms suggest that around 90% of LHA cuts are paid by tenants, with the remaining 10% absorbed by landlords.[11]

The Commission welcomes the intention to end the local housing allowance (LHA) freeze but urges government to recalibrate LHA rates to the 30th percentile of local rented properties and recommends that in the future, uprating of LHA should be in-line with local rental prices and not general inflation rates.

Universal credit

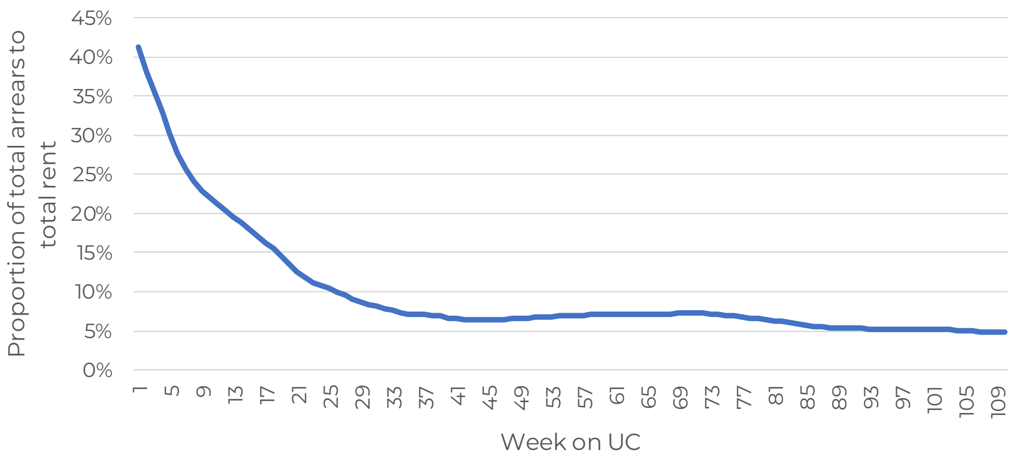
The principle of simplifying the benefit system and providing incentives to take paid work is something which few disagree with. These objectives, alongside promoting financial independence, formed the rationale behind the coalition government's flagship welfare policy, universal credit (UC).

Since the legislation was enacted in 2012, UC has been rolled out across the country. The first wave transitioned those with a benefit claim who have had a change in circumstance and moved onto UC.[12] The next stage is covering those whose circumstances have not changed, which has proved to be a more challenging task as a relatively high proportion will have some form of vulnerability.[13] It is expected that all households claiming legacy benefits and tax credits will have moved across to UC by 2023.

The introduction of UC has been mired in controversy, not least concerning the impacts of the new system on housing affordability (and not just receiving an adequate amount of housing benefit, but also receiving the support on time). Evidence to the Commission showed that those claiming UC have significantly higher levels of arrears than those on the legacy housing benefit system. In qualitative research, tenants have explained the financial stress and emotional distress of not having money while they wait for their UC payment.[14] It was reported to the Commission that not only was the system designed to include a waiting period at the start of the claim, but there have also been administrative problems causing delays to payments.

As a consequence, studies have shown rising levels of personal debt as people attempt to meet their outgoings,[15] and increased council tax arrears.[16] Moreover, UC is associated with a rapid rise in the levels of rent arrears.[17] As illustrated in the graph below of tenants on UC in the London Borough of Southwark, rent arrears are extremely high in the initial weeks, with large levels of arrears mounting up.

Accumulated arrears as proportion of accumulated rents owed



Source: Have Government Reforms to Universal Credit Reduced the Rent Arrears of Southwark's Tenants? (Smith Institute, 2019)

Tenants under financial stress generally fail to pay the debt down. As mentioned, this is a growing problem among all renters, but especially so in the PRS. Indeed, the RLA stated that in areas where UC had been introduced there was a dramatic increase in non-payments of rent[18] and high levels of rent arrears.[19]

A problem for many tenants has been the switch from paying housing benefit directly to landlords to paying tenants.[20] Recent changes have made it easier for social landlords to apply for alternative payment arrangements (whereby the housing benefit element of UC is paid directly to the landlord) when a tenant is in a certain amount of arrears.[21] However, having the default option that landlords receive payments directly would help prevent rent arrears and housing stress.[22]

An additional way of supporting tenants would also be to change the frequency of payments. Under UC, payments are made monthly. However, for many working tenants, earnings are paid on a weekly basis (as the table below illustrates). Greater flexibility of payments could help those tenants who are struggling to pay their rent.

Pay frequency by type of worker

	All workers	Low-paid workers	Housing benefit claimants
Paid weekly	13.4	25.3	22.5
Calendar month	70.8	58.2	57.6

Source: Labour Force Survey April to July 2018 (note: low pay refers to two-thirds of median hourly earnings)

UC's design continues to have a negative impact on social landlords in regard to rent arrears. So far, they have not been as large as some feared, although the Commission was told they have increased levels of bad debt on the balance sheet.

There is also a concern that UC roll-out is acting as a constraint on new build and, alongside other benefit changes, particularly affecting the appetite to build family housing.[23] The evidence for this is unconvincing, but the situation could change under the managed migration of all tenants to UC – which will include those who may struggle more to pay the rent than those initially moved across.

The Commission was told that UC might present bigger problems in the PRS. There are already signs of an unwillingness of private landlords to let to people in receipt of benefits. A survey of RLA members in 2018 found that: 62% of respondents stated they would not let to UC claimants; 56% experienced a tenant on housing benefit going into rent arrears in the past 12 months; and 30% reported they had evicted a tenant who was in receipt of housing benefit/local housing allowance in the past 12 months.[24] An inquiry by Parliament's DWP select committee found similar evidence, as well as highlighting some restrictions on mortgage lending (from smaller lenders) to landlords whose tenants are in receipt of housing benefit.[25]

Campaigners have been calling for an end to properties advertised as "no DSS", arguing that it is discriminatory and should be outlawed.[26] The Commission agrees and calls on the government to confirm a legal approach to ending the practice.

The Commission recommends accelerating reforms to universal credit to reduce the delay in the initial payment from five weeks to under two; for payments to be made on a weekly basis; and for the housing benefit element of universal credit to be paid directly to landlords by default, with an option for tenants to receive the payment themselves if they so wish.

The Commission recommends the government outlaw discrimination by landlords and letting agents against a tenant or prospective tenant because of their entitlement to benefit and disallow the advertisement of vacant properties in a manner that could be described as discrimination.

PART THIRTEEN

Struggling older households

Affordability problems do not end after the initial struggle to buy or when first renting. For some, housing stress extends into older age. Even for those who have bought and paid off their mortgage, housing affordability can be a matter of not having the resources to ensure their housing is fit for human habitation.

The problem is rooted in past failures to provide enough suitable, affordable homes for older people, and especially specialist housing. Not all older people want to downsize or move into retirement communities, but there are limited choices. On present trends the gap in provision could grow to 376,000 by 2050.[1] As Anchor Hanover told the Commission:

"Given the large numbers of older people who make up the UK population, social housing providers alone are unlikely to be able to have capacity to meet the demand for older people's affordable housing."

The Centre for Housing Policy at York University estimates that by 2040 up to a third of 60-year-olds will be renting, many in the private sector.[2] This could become a major crisis as Generation Rent enters retirement, when their income falls but their private rents remain relatively high (incomes – before housing costs – of those in retirement is less than 90% of those of working age).[3] YouGov polling showed that the majority of private renters (57%) felt that if they were still renting privately when they retire they would be unable to afford to pay the rent on a suitable home themselves.[4]

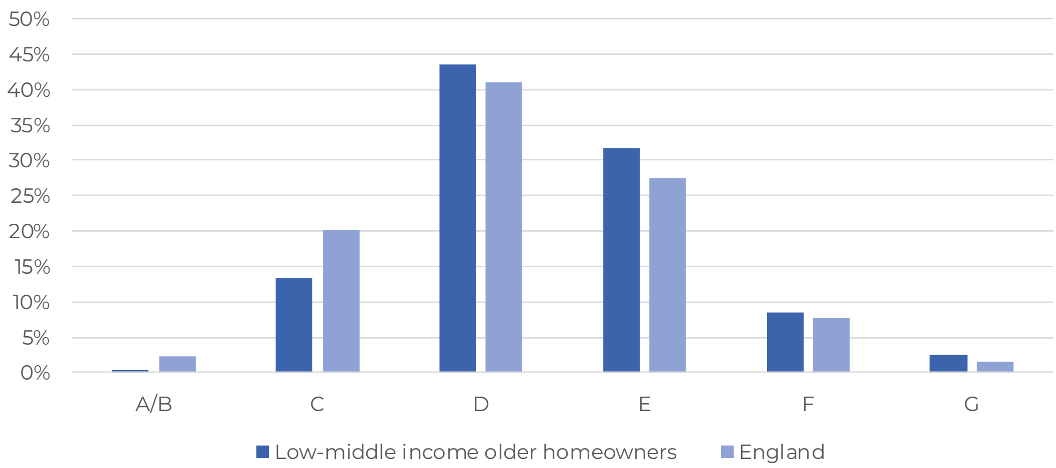
Left unchanged, households will therefore not be able to buy or access social housing but will instead face retirement with significantly less money and greater insecurity. This will potentially push more vulnerable people into housing stress and place additional pressures on the welfare and healthcare system.

Decent housing in retirement

Older households are overwhelmingly home owners – with almost eight in 10 households headed by someone 65 years or over being owner-occupiers.[5] The vast majority (94%) of older home owners own without a mortgage and for many the challenge is not about meeting the mortgage payments. Instead, many households face serious issues with non-decent and unsuited housing.

Compliance with new energy efficiency standards will certainly affect low- to middle-income older home owners, who are more likely to live in unfit homes with poorer energy efficiency ratings. Managing the transition to zero-carbon homes for "asset rich-income poor" households will be challenging, and not only in terms of meeting the upfront costs of compliance – other issues, such as the inconvenience and disruption, are often cited as serious barriers to home improvements.

Energy rating of properties and older low- to middle-income home owners



NB: Energy ratings: A is high energy efficiency and G low energy efficiency. The government's 2015 Fuel Poverty Strategy aims to ensure fuel-poor homes are upgraded to an energy efficiency rating (EPC) of C by 2030.

Source: English Housing Survey 2016/17; Low to middle income defined as being in the bottom half of the income distribution

Meeting the repairs challenge will nevertheless require significant funding at all levels. The English Housing Survey suggests that the cost of bringing all homes up to the Decent Homes Standard for older home owners on low to middle incomes is around £4.8 billion.[6] The Commission was told that a proportion of that cost could come in the form of more generous loans and grants, although it was noted that level of awareness of the need for adaptions (and the support available) remained low.[7]

The Commission recommends that public and private investment in improving the housing stock of older homeowners should be increased and targeted on those who cannot afford to undertake the work themselves.

Downsizing and purpose-built homes

As the population over state pension age increases (it is set to grow from around 10.4 million in 2016 to 13.7 million in 2041),[8] so will demand for suitable and affordable housing for older people. The Commission was told that meeting that demand was becoming ever more challenging. A study by Reading University for Age UK commented:

"At present, home owners in a locality with a house valued in the lower 40% of the

price distribution are going to have to find other sources of funds if they want to move into owner-occupied retirement housing. Aggregating across the country, that percentage totals millions of elderly home owners being excluded from a living option that may greatly benefit them."[9]

Around 8.6 million households in England are under-occupied – with at least two bedrooms more than needed.[10] Supporting more of these households to downsize or move into better-suited accommodation can free up family-sized housing for young families, increasing the supply of affordable homes. There are also savings for the NHS and local government – estimated at £3,500 a year for each person in later living homes.[11] Research by WPI strategy for the Home Builders Federation suggests that people are happier and healthier downsizing to later living retirement homes. The Commission was told that older people valued communities where the costs and service charges were fixed and there was a possibility of getting extra care if needed.

The Commission was told that the country could be facing a downsizing boom. Recent surveys found that many older owner-occupiers (over a third of home owners over 65) were considering downsizing, with the highest levels in the North.[12] However, rates of downsizing are low compared with other similar countries. According to Housing LIN, some 17% of over 60s in the United States and 13% in Australia and New Zealand live in dedicated retirement communities (although many will simply be age-restricted). Estimates suggest that the figure in the UK is 1%.[13]

A major obstacle is the lack of suitable purpose-built homes. According to Legal & General, 13% of older households were keen to live in retirement housing, but the lack of supply of good-quality (and affordable) homes is a major barrier.[14] Savills research claims there are 150,000 older households who own some housing equity but could not afford to buy a purpose-built retirement apartment.[15]

The Local Government Association is calling for a better integrated approach in order to make sure today's housing is fit for the future and older people have an affordable housing choice (including the option for multi-generational living, where older people let rooms to younger people).[16] The Commission was told that there also needed to be improvements in design and planning. The planning use classes, for example, were said to need urgently updating – perhaps learning from the changes to the London Plan concerning "specialist older persons housing" and "care home accommodation".

APPG on Housing and Care for Older People

- APPG on Housing and Care for Older People's reports call for a national strategy for rental housing for later life, which would:
- significantly increase the provision of purpose-built rented homes (and thereby releasing family housing at social rents for younger households);
- secure a managed shift from renting in the PRS to renting in the subsidised social housing sector; make greater use of the shared ownership models (with service charges and rents are kept at truly affordable levels);
- develop more extra care and sheltered housing schemes; offer incentives to encourage investment for the new build-to-rent developers of quality housing for older people; and
- ensure all relevant authorities give much greater priority to older people's housing.

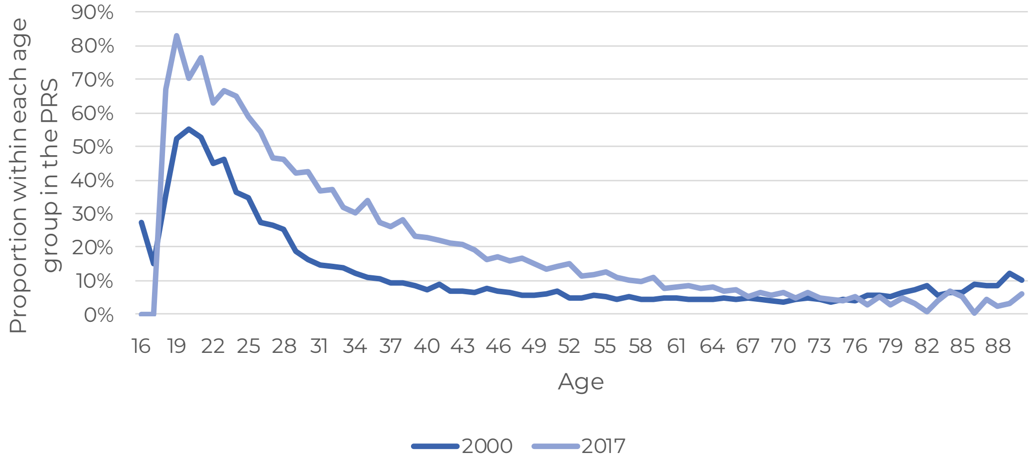
The Commission recommends the government take forward the proposals from the APPG on Housing and Care for Older People, especially concerning greater support for affordable purpose built homes and extra care housing, better advice, incentives to downsize, and improved design standards; and that it consult with councils on setting targets in local plans to provide more and better housing for older people.

Housing an ageing Generation Rent

The Commission is concerned about the looming affordability crisis as large numbers of Generation Rent enter retirement. That concern is compounded by the growing number of people aged over 45 who could face serious problem debt in their retirement years.

Although the English Housing Survey showed that private renters were less likely to be in arrears than social renters, the outlook is worrying for those who are already paying over a third of their incomes in rent and are unlikely to become social tenants or home owners. Analysis by the Resolution Foundation showed that around 20% of Generation X were in the PRS in 2016. As the youngest member would have been 36 at that point, it seems that most of those in the PRS of that generation will struggle to buy. This is a relatively new phenomenon. For the Baby Boomer generation, for example, only 10% were in the PRS at a similar age.[17] It is also important to note that by 50 years old the tenure shifts for individual households become less frequent.[18]

Proportion of households living in the PRS by single years, 2000-17



Source: AHC analysis of Labour Force Survey Household datasets

Evidence to the Commission estimates that the numbers of households in the PRS headed by someone aged over 64 will more than treble over the next 25-30 years to 1.5 million,[19] many on low incomes. This raises serious issues, not least that rents which may be affordable when a tenant is in work can become too expensive when they are reliant on pension income. For housing benefit claimants, there may be an unbridgeable gap between the actual rent and the help received.

Alongside measures to support people into social rented housing or home ownership (such as help to buy on retirement housing), there could be scope for the government to explore new housing products which would be better suited for older renters. This could include looking at incentives to downsize and flexibility of rents within the affordable housing sector. Homes England, for example, could examine whether intermediate rental products could be let to those in their mid-40s and revert to social rents if a household's income dropped significantly on retirement. This could provide households with an affordable rent now and into retirement and would not require the same level of grant as providing traditional social rented property.

The table overpage outlines the income of households at the 30th percentile in the South East. It shows that someone of working age would be paying over a third of their income on rent in lower-quartile market-rented housing, but could afford an intermediate rent. However, on retirement their income drops and intermediate housing would become unaffordable but social rents would not.

Affordability by age and rent in the South East

		Lower-quartile market rent		Intermediate rent		Social rent	
	Income (30th percentile)	Rent	Rent to income	Rent	Rent to income	Rent	Rent to income
Working age	£405	£162	40%	£121	30%	£107	26%
Retired	£343	£162	47%	£121	35%	£107	31%

Source: AHC analysis of incomes from FRS, 2016/17 data; income equivalised, social rents from Regulator of Social Housing, Statistical Data Return, Private Rents from VOA, intermediate rent calculated as 60% of median market rents.

The government must better prepare for a generation of older struggling renters. Preventative measures are urgently needed, including support for intermediate rental products which revert to social rents for households as they enter retirement and their income drops.

Equity release

Some home owners, aged over 55, are able to release equity from their property tax-free, usually through equity release products, such as lifetime mortgages, and specialist products, such as retirement interest-only mortgages. However, the opportunity to do so and the amounts of funds that can be released vary considerably by location and personal circumstances.

The Commission was told that the total amount of equity release had doubled over the past three years to nearly £4 billion, aided by low interest rates, more product choice and better consumer protection. The average release is around £100,000, the majority of which is used to settle unsecured debt, repay mortgages or fund a gift to family members. It was noted that more releases were now being used for home improvements and downsizing.[20]

The Commission was told that with the increase in private pensions and housing wealth there was considerable potential to use equity release for home improvements and downsizing. New approaches were called for, such as Nationwide's efforts to offer equity release products for smaller-scale repairs through their high-street branches.

The Commission recommends that the government examine ways to support equity release for lower-income home owners, especially for home improvements, and for more shared ownership for older households seeking to downsize.

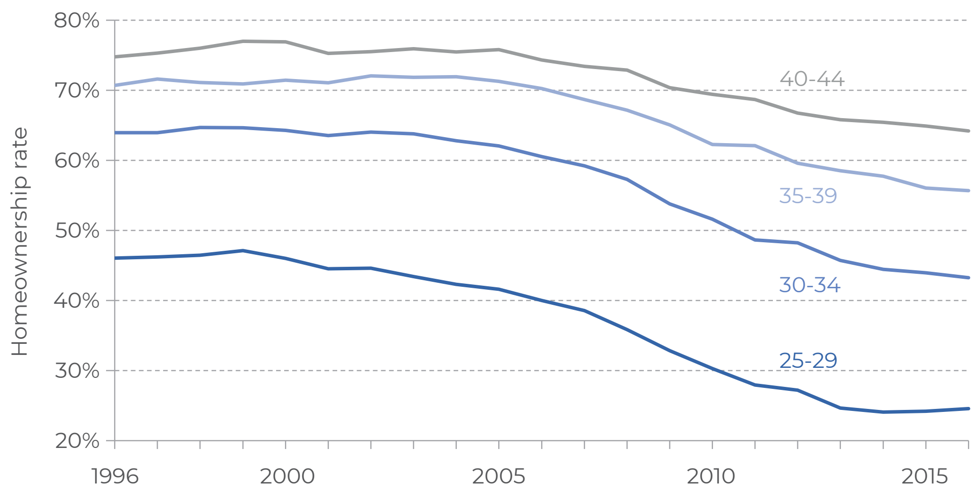
PART FOURTEEN

Frustrated first-time buyers

For many people the housing affordability crisis is seen through the prism of the difficulties younger people and young families face in buying their first home. The Commission's polling and focus group work showed that home ownership was by far the preferred tenure for all income groups, but that most low-income renters saw it as unobtainable. Indeed, the Commission's focus groups revealed that most households on low to average incomes could only see themselves owning a home if they won the lottery.

The Commission was told that rates of home ownership had fallen from their peak in 2003 of 71% to 64% today.[1] There has been a marked fall in rates of home ownership among younger adults, which is particularly noticeable from the mid-2000s (and took a particular decline after 2008).

Home ownership for those aged 25-44, by five-year age band



Source: Cribb, J et al The Decline of Home Ownership Among Young Adults (2018)

It is therefore not surprising that increasing home ownership rates remains a housing priority for the public and government. The sense of frustration felt by many renters and people still living at home about being denied the opportunity to buy was frequently mentioned at the Commission's consultation events. The frustration with the PRS was often born of the fact that people had been renting longer than they wished and could no longer see a route to home ownership. The PRS was also seen to offer poor value for money when compared with home ownership, and people wanted action to reduce rents to help them save for a deposit.

As observed in the earlier chapter on why housing is unaffordable, the reasons for the drop in the levels of home ownership take in a range of factors, including mortgage regulation, the impact of low interest rates on the level of deposits needed (alongside high and rising property prices, resulting from an undersupply of housing and low-cost home ownership products), and the tax treatment of housing.

Addressing these issues will be critical to supporting people into home ownership. However, the Commission was clear that efforts to increase home ownership rates should be made in a sustainable way, ensuring long-term affordability for individuals that does not simply drive up prices and create further problems for future would-be first-time buyers (FTBs).

Mortgage regulation and availability

For most people, buying their first home requires a mortgage, so regulations placed on lending play a critical role in the accessibility of home ownership.

The ability of would-be home owners to buy a home has been affected by post-recession mortgage regulations. These regulations sought to curtail the reckless lending that was seen in the USA, prior to the financial crisis, as a driver of the global financial crash.[2] In the UK the evidence that excessive lending led to the downturn is less clear. The ratio of mortgage costs to earnings, for example, was lower than in the run-up to the 1990s crash, with higher house prices driven by economic growth and lower interest rates.[3] This suggests that the credit crunch was driven by the contraction in wholesale markets for mortgage finance in the United States and by a cyclical boom in the UK.[4]

The data shows that the proportion of high loan-to-value (LTV) loans was much greater in the 1980s and 1990s than the 2000s. It peaked at around 50% in the mid-1990s (and was consistently above 40% before then), while in the run-up to the crash it was around 30%.[5] The proportion of FTBs with a loan-to-value ratio of over 95% was relatively low and the median LTV advances for FTBs had dropped from 95% in most of the 1980s and 1990s to 90% in the 2000s.[6]

Furthermore, in 2007, just 3.6% of mortgage advances had a loan-to-income ratio of over 5:1.[7] This is not to suggest that there were no problems. For example, the evidence suggests that those with self-certified mortgages had a much higher chance of defaulting;[8] these formed 15% of advances to FTBs with a LTV over 95%, and over 50% for LTV advances of 75%–85%.[9] Furthermore, from a macro-prudential perspective, risky lending did have serious implications for the economy (see below).

Following the crash, mortgage regulations were introduced to limit the number of households overly exposed. Regulatory reforms have required lenders to undertake affordability tests to curb self-certified mortgages and to introduce tougher stress testing if interest rates rose, limiting high loan-to-income mortgages and interest-only mortgages and effectively making higher LTV loans more expensive (through Basel III).

The rationale behind the new mortgage regulations was (and still is) both for protection of individual households, and for macro-prudential reasons. As the Commission was told, highly indebted households are vulnerable to falls in income or increases in mortgage repayments and in an economic downturn will cut spending sharply.

This creates risks to lenders from non-payment of mortgages – and other forms of lending. Conversely, rising house prices can lead to loans being viewed as less risky in an upturn (existing home owners can use their housing equity to borrow more), leading to increased lending and house prices, but also building up risk.

Evidence shows that housing cycles have also been at the heart of the majority of banking crises in advanced economies.[10] Those countries with higher levels of household debt have seen larger falls in consumption during the downturn.[11] And in the context of housing affordability, greater availability of credit has been shown to increase house prices.[12]

Cuts in consumption between 2007 and 2009 among mortgagors with different LTI ratios

LTI ratio	United Kingdom (%)	Denmark (%)	Norway (%)
0 to 1	-1.4	1.2	1.9
1 to 2	-4.2	1.9	-6.3
2 to 3	-7	1	-11.5
3 to 4	-9.8	-2.3	-21.3
4 to 5	-12.6	-5.8	-28.9
5 to 6	n.a.	-7.9	n.a.

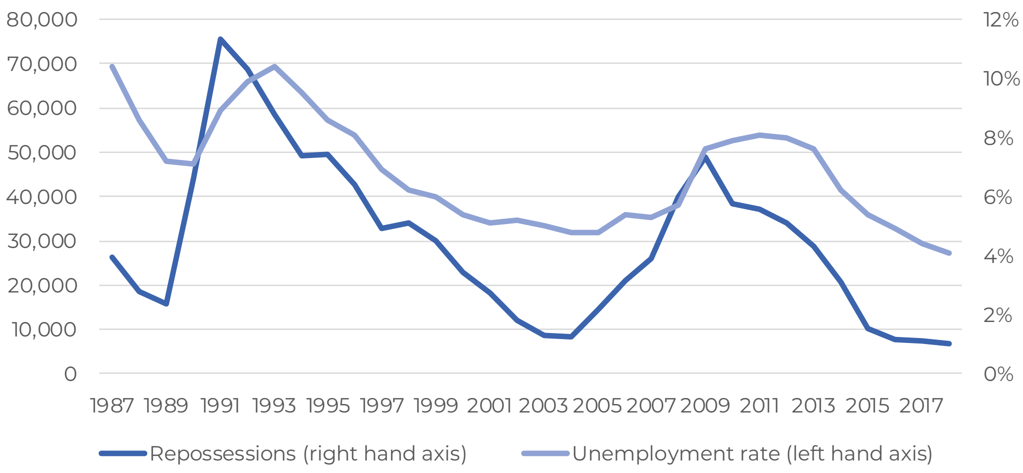
Source: Financial Stability Report, June 2017

The concern would be that relaxing mortgage regulations would result in greater exposure for the economy and housing affordability if interest rates or unemployment levels rise. The Bank of England has calculated that a rise of unemployment to 8% would result in a doubling of households with a high debt servicing rate (defined as over 40% of gross income).[13]

Regulations on stress testing mortgages have therefore sought to limit the exposure to individual households and the economy in a downturn. Under new rules, the majority of mortgages are stress tested at around 7-8%.[14] This may appear high when average interest rates are around 3% for a two-year fixed-rate mortgage at 90% LTV.[15] However, the calculation is based on a reversion rate to cover the cost of a mortgage when the fixed period ends (currently around 4%) plus a stress test of three percentage points. This is intended to create a safety margin with interest rate rises likely to have a similar impact on high debt servicing rates as a similar percentage point rise of unemployment.[16]

While the number of home owners failing to meet mortgage payments and facing repossession is low compared with historical comparisons, the economic situation remains relatively benign with both interest rates and unemployment at low levels. As the data highlighted above from the Bank of England suggests, any sudden movement in unemployment or interest rates is likely to place many more households in housing stress and negative equity. Therefore, using repossessions data at this point in the economic cycle to make judgments about current mortgage risks would be ill advised.

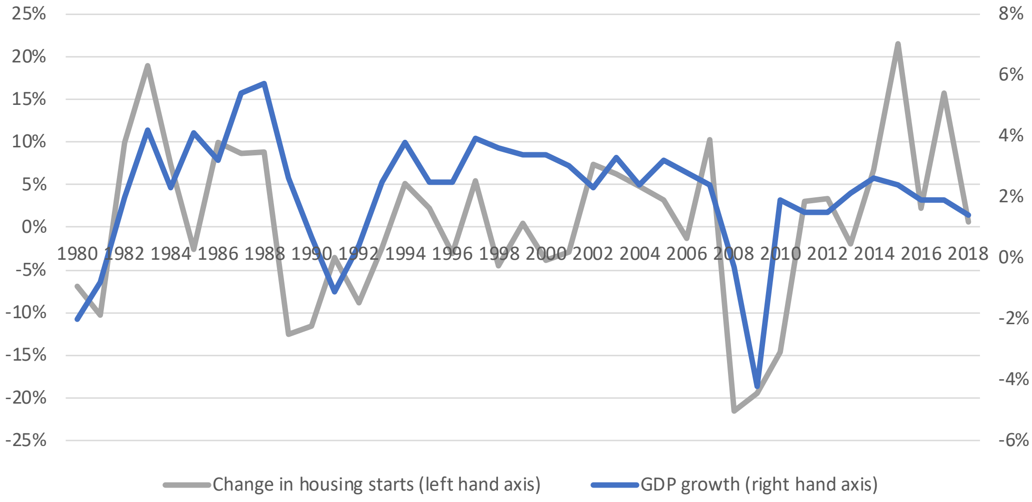
Levels of repossessions and unemployment rate, UK



Source: Ministry of Justice, Mortgage and Landlord Possession Statistics Quarterly – Statistical Tables; Labour Market Statistics, Unemployment rate (aged 16 and over, seasonally adjusted), ONS, 2019

In addition to the impact on mortgage affordability of credit regulations, it is also important to understand the effect which fluctuating house prices have on house building. The chart overpage shows the impact of downturns in the economy on the level of private house building. With house price inflation being a driver of economic downturns, measures to support home ownership which weaken financial stability are also likely to affect house building levels (and skills),[17] which in turn adversely affect longer-term housing affordability by reducing supply.

Annual change in private housing starts (England) and GDP growth (UK)



Source: MHCLG Live Table 244 and ONS Gross Domestic Product: Year on Year Growth: CVM SA %

Although these regulations have contributed to reduced access to credit for FTBs (and there were some calls in Commission focus groups for a return to 100% mortgages), the Commission was not of the view that a return to the pre-2008 regulatory regime would be wise. Indeed, the measures set out by the Commission explicitly guard against supporting people into home ownership where this is likely to be unaffordable.

Relaxing requirements to undertake affordability tests, returning to 100% mortgages or to interest-only mortgages would not be appropriate steps. Indeed, as has been noted, the reduction of the volume of interest-only mortgages is a success story of regulation and industry efforts.[18]

Small increases in interest rates could result in large falls in house prices,[19] leaving those with little or no equity in their home exposed to negative equity – something which would prove devastating if employment rates fell. While converting standard repayment mortgages to interest-only mortgages during financial shocks is understandable, interest-only mortgages without realistic repayment plans are likely to create problems for the future.

The Commission considers it prudent to retain the current stress tests for mortgages and restrain self-certified mortgages and interest-only mortgages. Relaxation at this point would push up prices and negatively affect longer-term affordability.

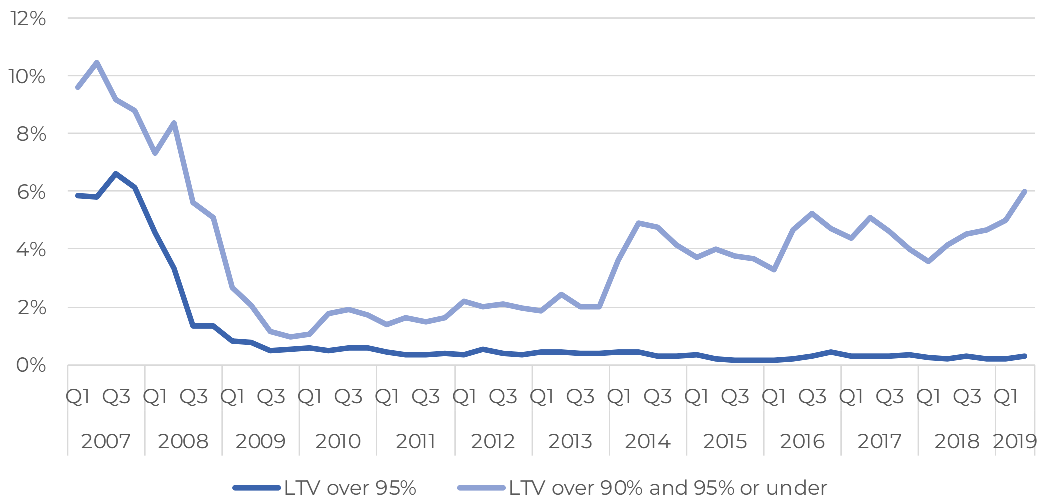
Affordable lending

As mentioned, regulations have placed tighter controls on loan-to-income (LTI) ratios – limiting the proportion of advances with LTI ratios of over 4.5 to 15%, as well as putting stricter rules on affordability tests in place. The Mortgage Market Review did not, however, set a limit on LTI levels. It was felt that the case on consumer protection grounds was yet to be proven, but high LTV loans were more risky to corporates.[20]

Nevertheless, the blanket cap was felt to penalise consumers. Capital requirements which rise as LTVs do are used to limit risk. Following the crash capital requirements through Basel III and EU CRD IV placed stronger risk weighting for advances above the 80% LTV levels.[21]

Evidence suggests that there has been a significant decline in the level of mortgages with a high LTV. However, the extent to which this is due to regulation is unclear. High-value lending is below historical norms or permissible levels, and lenders' underwriting standards were already constraining lending. It has been noted that in 2007, approximately 4% of loans had both a LTV in excess of 95% and LTI of 3.5 times (for joint borrowers, 2.75 times). Such lending had almost disappeared by 2009, before new regulations were put in place.[22]

Proportion of loans with high LTVs



Source: Bank of England and FCA, MLAR Statistics Detailed Tables

Unaffordable deposits

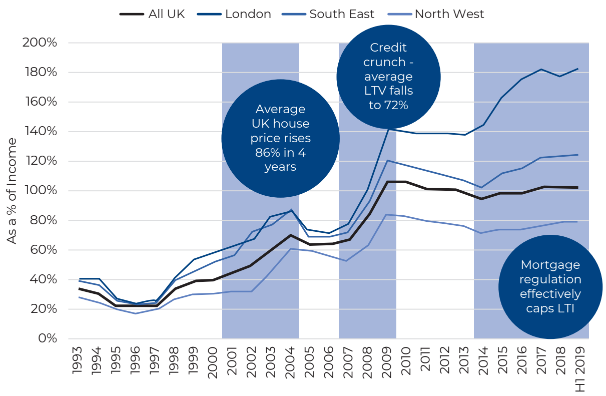
Alongside lower availability of high-LTV mortgages, high house prices have constrained the ability of households to raise a deposit. In fact, the inability to save for a deposit is cited by the public as the biggest barrier to buying.[23] This chimes with research by the banks and building societies, which have shown that it would take over five years to save for a deposit in lower-demand areas, rising to double-digit figures in the South.[24]

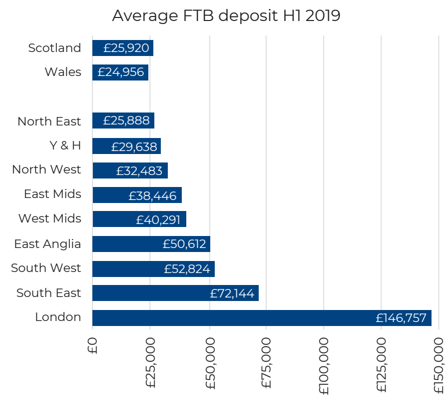
The data demonstrates the high levels of savings required to buy. Even though FTBs benefit from tax breaks (on stamp duty and government-backed schemes on new-build, such as Help to Buy), the loan-to-value requirements of lenders make home ownership unaffordable for many FTBs on average incomes.

The problem of raising the deposit is much worse in London, where the mean FTB deposit is around £147,000 (2019), equivalent to 180% of income; more than double what it was before the financial crisis and nine times higher than in the mid-1990s. The average deposit in all English regions, other than the three Northern regions, is above the average full-time salary for the region.[25]

The median FTB deposit is lower, with English Housing Survey data suggesting that in 2016 the median FTB over the previous three years had bought with a deposit of £25,000 versus a mean deposit of £42,000.[26] Nevertheless, median deposits still represent a considerable amount to save.

Average FTB deposit 2019





Source: Savills, UK Finance, MHCLG

As a consequence, recourse to the "bank of mum and dad" has become a prominent feature of home ownership (or general reliance on family support),[27] raising issues around entrenched wealth inequalities. Lender data suggests around a quarter of prospective FTBs use parental savings to help fund their deposit.[28] According to Legal & General, the average parental contribution for home buyers in 2019 was £24,100, with parents collectively giving £6.3 billion towards housing deposits – high enough to rank "the bank of mum and dad" as the equivalent 10th-largest mortgage lender. The Resolution Foundation notes that at the age of 30, those without parental property wealth are approximately 60% less likely to be home owners than people whose parents are home owners.[29]

Some housing associations are offering products to help tenants save for a deposit. In the North East, for example, Thirteen Housing Group is pioneering a "BuyinTime" product, which allows a tenant financial support and time to save a deposit while already living in the property they want to purchase. Once a tenant has proof that they can afford a home, they can move in. They will then pay rent on the property for up to 24 months, following which they are gifted with the money they have already paid to become their deposit. To qualify for the product, the tenant must show evidence that saving a deposit is a barrier to home ownership for them.

Help to Buy

There have been various government-backed schemes to overcome the barriers to home ownership, including mortgage interest tax relief and the right to buy. By far the biggest in recent years has been the Help to Buy: Equity Loan scheme (alongside Help to Buy: Mortgage Guarantee; Help to Buy: Shared Ownership and the recently closed Help to Buy ISA).[30] Since 2013 the equity loan scheme has helped over 230,000 households to buy properties (mainly houses), with loans totalling around £13 billion.[31] This programme has been aimed not only at supporting people into home ownership but also increasing the supply of new homes (as well as contributing to economic growth).[32]

MHCLG data shows that the median purchase price of properties acquired through the scheme (between April 2013 and June 2019) was £239,950 and over half had a deposit up to 5%. The average total applicant household income of scheme beneficiaries to date has been £52,494, with a higher figure in London. Some 66% of all Help to Buy completions were for households with incomes over £40,000 and 45% for households with incomes over £50,000.[33]

Evidence to the Commission was mostly critical of Help to Buy, mainly because it is designed to benefit those in a position to buy their own home in the first place. The Commission was told the scheme had excessively benefited the volume house builders, had enabled buyers to purchase larger properties than they would otherwise have been able to do, and had helped push up house prices. The recent NAO report raised similar concerns, including observing that buyers who wanted to sell their property soon after they purchased might find they were in negative equity.[34] According to the House of Commons Select Committee, the scheme was poorly targeted at FTBs, citing evidence that around three-fifths of buyers did not require its support to buy a property.[35] The committee concluded that:

"...the large sums of money tied up could have been spent in different ways to address a wider set of housing priorities and focus more on those most in need."[36]

The question for the Commission was whether additional support could be provided to help people overcome the barriers to home ownership. The Commission was cognisant of the impact that reducing deposits could have on house price inflation. As noted, this has been a criticism of the government's Help to Buy programme. However, as the LSE's evaluation concluded:

"We can find no evidence that the scheme has had any significant impact on general house price inflation, mainly because Help to Buy is a small proportion of the overall market."[37]

This is a view shared by the Office for Budget Responsibility, which made only small adjustments to its forecasts for house price inflation as result of Help to Buy.[38] In total, support under the scheme equates to 4% of mortgage funding for all FTBs.[39]

Some of the other criticisms of Help to Buy targeting have now been addressed. Around 20% of those supported have not been first-time buyers, while around 10% had incomes over £80,000.[40] The regional data on breakdown of purchase price under Help to Buy, compared with average house price, also indicates that in regions outside the South, prices far exceed the average, let alone lower-quartile prices; although it is worth stressing that this does not take into account differences in quality or size. When doing so, Help to Buy properties were below those of new-build properties.[41]

The evidence also suggests that for those using Help to Buy, the scheme enabled them to buy a bigger property. Overall, four out of 10 households using Help to Buy would otherwise not have been able to buy (with lower levels in lower-demand areas).[42]

Regional Help to Buy purchase prices compared with regional house prices

	Average Help to Buy purchase price	Average house price	Percentage difference
England	242,793	269,719	11%
Yorkshire & the Humber	157,027	200,380	28%
South West	251,922	257,938	2%
South East	322,640	337,319	5%
London	478,128	446,216	-7%
East of England	288,564	297,634	3%
West Midlands Region	191,517	224,819	17%
North East	123,348	180,497	46%
North West	158,007	213,345	35%
East Midlands	187,175	233,671	25%

Sources: Whitehead, C et al Evaluation of the Help to Buy Equity Loan Scheme 2017 (MHCLG, 2018) and HM Land Registry UK House Price Index Average Seasonally Adjusted House Prices. Compares Average purchase-related variables by region (4 quarters to Q2 2017) from Help to Buy with average prices for June 2017.

As a result of some of the criticisms and for better targeting of support, it was announced in the 2018 Budget that the scheme, which was previously expected to end in 2021, would be extended for two years but limited to FTBs and with regional price caps (set at 1.5 times the average price of first-time purchases in the region). Research from Savills has suggested that this is likely to affect regions in the North and Midlands most.[43]

The Commission wished to explore both whether Help to Buy could be extended to the existing market and better targeted to help those at the margins of home ownership.

The rationale behind extending Help to Buy to second-hand properties would be that, while support had been required to initially help increase new build, house building has now recovered from the downturn (even if more is still needed to increase supply). There has also been concern that it was creating market distortions, with house builders developing homes tailored to those able to benefit from Help to Buy, which could negatively impact buying chains. It was also felt that as new build remained a small part of the market, Help to Buy limited choice of location and level of house price for new buyers.

Furthermore, although other measures – particularly additional supply to reduce relative prices and improve housing affordability – are critical to supporting people into home ownership, these measures are unlikely (especially in the short term) to support those at the margins of home ownership. As a simple example, a household able to save £10,000 could afford a 5% deposit on a £200,000 home. Prices would have to drop to £50,000 to cover a 20% deposit often required by lenders. In addition, providing an interest-free loan or equity loan reduces the cost of a mortgage, which can help those who have failed the stress test.

Balanced against the positive impacts, the Commission was wary of the impact which a Help to Buy extension to the existing market could have on house prices. It should also be said that an extension and changes to the schemes conditions will require more administration.

The Commission felt, however, that if limited in scope, an extended Help to Buy would not have a significant impact on house price inflation. As the data highlights, 236,000 properties have been bought through Help to Buy equity loans, which has not shown to have had a major impact on house prices.

What is needed is much better targeting rules, since, as the data suggests, the majority of those using Help to Buy could have achieved home ownership without government support. Rules similar to those for access to shared ownership should be used to ensure that additionality of (sustainable) home ownership is the primary objective. Better targeting and opening up the scheme to allow for relatively lower income potential FTBs to buy in the existing housing market is also likely is also likely to improve intergenerational fairness and reduce wealth inequalities, since beneficiaries would be those less likely to benefit from the "bank of mum and dad".[44]

There was understandable concern from some Commissioners about what would happen on expiry of the interest-free period for the equity loan. However, this seems unlikely to raise major issues of affordability. Lenders appear comfortable, given that borrowers have been through stringent affordability and stress tests, that buyers will be able to cope with the increased costs.[45]

The Commission welcomes the proposed reforms of the Help to Buy Equity Loan scheme and recommends it should include support for those buying homes in the existing market – but should be limited to lower income first-time buyers.

Buy to let

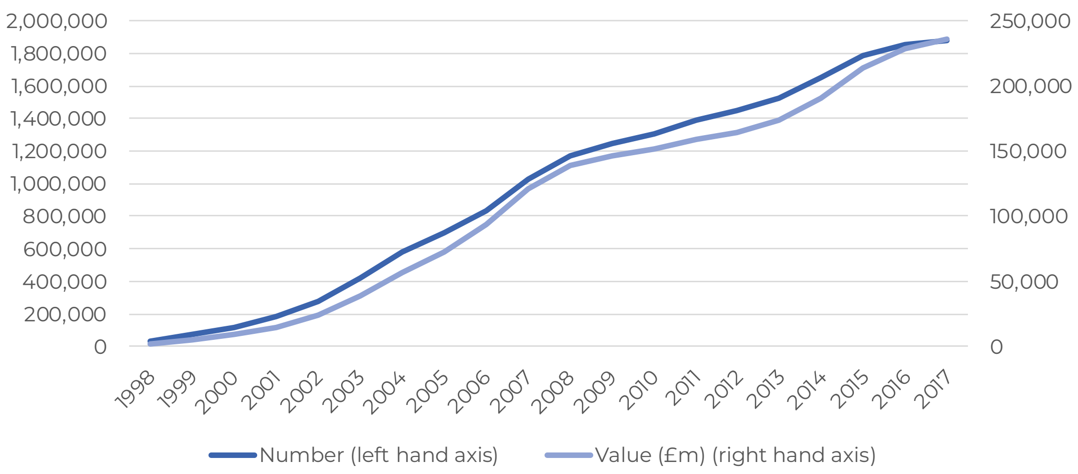
Younger households seeking to access home ownership have faced increased competition from landlords who have been able to access buy-to-let (BTL) mortgages. The Commission wished to explore this trend and examine how BTL mortgages had affected house prices and home ownership rates, and what interventions were needed to ensure a level playing field for FTBs – which in turn would help rebalance the tenure mix.

BTL mortgages came out of an industry-led initiative launched in 1996 by the Association of Residential Letting Agents (ARLA) and four lenders.[46] This followed deregulation of financial services and the private rental market. The scheme initially offered preferential rates to properties professionally managed by ARLA members, although this was not maintained.[47]

Prior to their launch, BTL mortgages were offered on a similar basis as lending to a small business. This required larger landlords to have larger deposits and charged higher interest rates. After 1996 lenders offered mortgages at terms closer to owner-occupiers.[48]

The data shows a rapid increase in BTL mortgages and levels of lending, from 120,000 loans in 2000 to 1 million by 2007 and 1.8 million a decade later. The total value of BTL lending consequently grew from £9.1 billion in 2000 to £120 billion in 2007 and £240 billion in 2017. As a proportion of all PRS homes, this represents around four in 10 households in the PRS.[49] Overall, gross BTL lending now accounts for over 15% of all outstanding mortgage loans to individuals.[50]

Buy-to-let gross lending

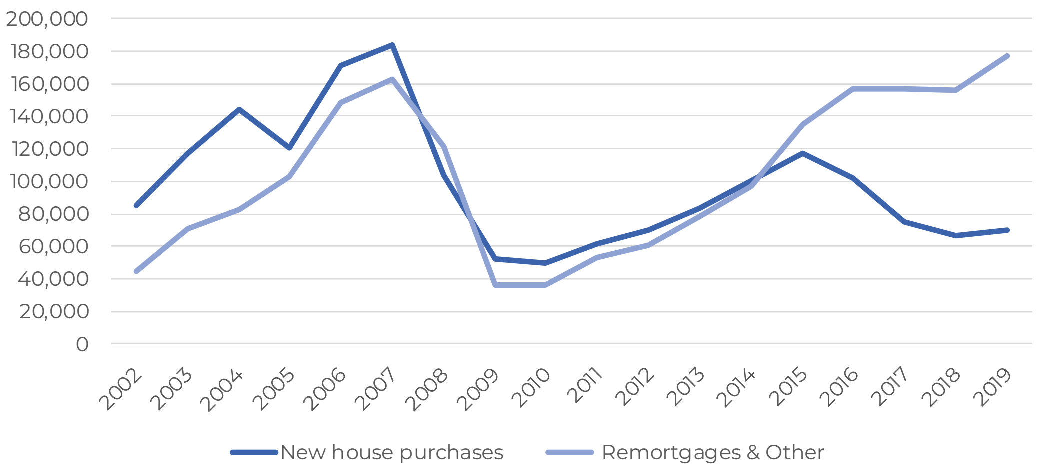


Source: CIH, UK Housing Review 2019 – underlying data from UK Finance

The effects of the increase in the level of BTL mortgages and BTL more generally has been to increase demand on housing, arguably having a negative impact on FTBs. Easier availability of mortgage finance has also increased house prices.[51] Evidence from Scotland, for example, suggests that one in three landlords thought they were contributing to higher house prices.[52] Analysis by the National Housing & Planning Advice Unit in 2008 found that the impact of BTL mortgages may have increased average UK house prices by up to 7% by 2007, equivalent in that period to £13,000 on the average house price. The research also suggested that the inflationary impact may have been felt most acutely in London, the South East and North West, where BTL features more strongly. As the author noted, the increase "may have been enough to price out some potential buyers from the housing market".[53]

As the data highlights, investment in residential property from BTL landlords has continued. While there has been a recent tailing off of new BTL mortgages following tax and regulatory changes, it remains a prominent feature of the mortgage market. BTL remortgaging has been relatively buoyant, with BTL landlords continuing to use remortgages as a way of funding additional purchases of properties.[54]

Buy to let: number of new loans



Source: Data for 2002-17 from CIH, UK Housing Review 2019 – underlying data from UK Finance; 2018 and 2019 from UK Finance Mortgage Trends Updates (February 2018 and 2019)

It remains to be seen whether the reductions in tax relief on mortgage interest – 20% annually – and related tax changes will lead to large numbers of private landlords leaving the sector. What the data has shown is that the attractiveness of BTL as an investment is influenced by wider economic factors, such as low yields from other asset classes (stocks and bonds). However, while property can be an attractive investment for all households, landlords have had specific advantages over FTBs: they can, for example, use the equity in their home to buy additional properties (with rising house prices boosting equity levels and enabling easier purchase of other properties).[55]

A further advantage for BTL landlords is mortgage regulation in relation to interest-only mortgages. These have been discouraged for owner-occupiers by regulators[56] and have been falling since the financial crisis. But BTL landlords have operated in a different environment and the majority of BTL mortgages were (and continue to be) interest-only.[57] This has made it possible to offset mortgage interest costs against tax, and returns have been well served by additional borrowing and expansion.[58] Equally the additional money could be put into a tax-free vehicle such as an ISA – although this tax advantage is being reduced.[59]

The tax changes are partly mitigated by the fact that the BTL landlords' principal focus is their property as a long-term investment.[60] Interest-only mortgages mean that rents more than cover the mortgage cost, whereas for repayment mortgages, the payments would be much closer to rents. Properties bought with such mortgages thus deliver a rental yield while also promising capital appreciation if prices rise. As noted by Professor Steve Wilcox:

"The much lower repayment levels associated with interest-only mortgages give investors in rented homes a very substantial competitive advantage over would-be home buyers (effectively) required to take out a repayment mortgage."[61]

Home owners may benefit from other tax benefits (such as capital gains tax), which may motivate them to get on the property ladder, but it does not put them in a stronger position to do so.

Interest-only mortgages for owner-occupiers have been limited, to ensure there is a repayment plan. The regulator's concern was that such mortgages could build up problems for lenders and customers at the end of the term.[62] Arguably, in the BTL sector the landlord has a credible plan for repayment, in that they do not live in the property and can therefore sell it.

From a macro-prudential perspective, modelling for the Bank of England suggests that rising interest rates would be likely to cause distress in the BTL sector. The Bank also finds that remortgaging and further advances increase distress, and are more pronounced in the BTL sector owing to the preponderance of interest-only mortgages.[63] Indeed, the Bank of England's Financial Policy Committee's calls for additional powers was to alleviate the amplification of housing cycles.[64] Furthermore, one of the concerns of the then FSA was that interest-only mortgages "stretch affordability", which as has been noted, is an explicit strategy for many BTL landlords.

The Commission was therefore of the view that further powers over interest-only mortgages to the BTL sector should be given to the Financial Policy Committee. This would be aimed at creating further parity between the regulations for FTBs and BTL mortgages. According to the IMF:

"To avoid biasing the market toward this segment and to enable quicker policy responses, the authorities should extend the Financial Policy Committee's powers

of direction to the BTL market. The powers of direction should mirror those the FPC currently has over the owner-occupied market."[65]

Use of such powers, based on a cost-benefit analysis, would need to be phased in to avoid a counterproductive sudden shock to the market. This would emulate the way in which similar rules for owner-occupiers were introduced. The Commission stresses that these changes should go alongside other measures, including building more (affordable) homes.

The Commission recommends that the government gives the Bank of England's Financial Policy Committee additional powers to limit the use of interest-only buy-to-let mortgages. This would create more of a level playing field between owner occupiers and buy-to-let landlords.

Shared ownership

Shared ownership can play an important role in widening access to home ownership and is actively supported by housing and planning policies. Part-buy, part-rent products lower the deposit required, thereby widening access and reducing monthly housing costs. Currently this model is more targeted than Help to Buy, helping a higher proportion of households on lower to middle incomes.[66]

There are around 180,000 shared ownership properties within the housing association sector[67] (although estimates based on English Housing Survey suggest the total may be higher).[68] The number of (new) shared ownership homes has in fact doubled over the past five years to around 17,000 units completed, with a marked increase in private investment – often to satisfy section 106 planning agreements.[69]

While clearly popular, the affordability of shared ownership depends on the location. Evidence from the GLA showed that in London, for example, the median household income of shared ownership purchasers in 2017/18 was £46,995 and deposits averaged around £20,000. According to the GLA, no shared ownership purchasers would have been able to buy in the borough they were living in, and 75% would not have been able to afford to buy even in the cheapest borough. In other regions average deposit levels are much lower, at around £10,000.[70]

The Commission was told that the cost of buying a shared ownership property could be substantially lower than using the same deposit to buy outright,[71] although in some regions the product faced stiff competition from the Help to Buy scheme. In both cases, costs will increase over time – because shared owners face rising rents and Help to Buy purchasers will be charged interest in due course.

At the AHC-London Councils round table it was said that shared ownership wasn't working as well in London because the range of products was so complex and hard to navigate, even for local planning committees. Others suggested that future affordable home ownership schemes should be offered on a shared equity rather than a shared ownership basis.

The Commission was told a range of issues continued to hinder the expansion of shared ownership. These included the requirement for shared owners to pay 100% of repairs and maintenance costs (even though they might only own 25% or 50% of the equity),[72] and the complexity of leases.[73]

There are also concerns that, although the rates of mortgage defaults are low, the focus of lenders is often on the risks associated with shared ownership, including defaults, fluctuations in sales price[74] and complications in liaising with housing associations in the event of a default.[75] The Commission was told that new lenders were only likely to enter the market at scale if shared ownership continued to grow and schemes were properly promoted.[76]

The Commission was also made aware of low levels of "staircasing" – the acquisition of additional equity shares[77] – which was said to be due to the costs involved and flat income growth. Evidence also shows that difficulties selling properties with high levels of shared owner equity means people are reluctant to staircase.[78] Moreover, valuations of improvements often prove problematic when shared owners wanted to sell. And it was noted that the market was not functioning effectively because of the lack of larger shared ownership housing for people to move to when they need more space.[79]

The government has floated proposals to offer new housing association tenants the right to a standard "streamlined valuation" shared ownership product of new-build (grant-funded) properties. New tenants would have the right to buy small increments and staircase (in 1% shares rather than the current minimum 10%) to full ownership.[80]

The Commission was told that housing associations were keen to develop new affordable shared home ownership products, but that most would need to be convinced that a national scheme would be widely taken up and not unnecessarily curtail existing local schemes. The National Housing Federation and Placeshapers also warned that a standardised national scheme might also have a negative impact on loan deals and create uncertainty for lenders.[81] *Which?* claims that the uptake by tenants would be very small and warns:

"While the monthly repayments on the mortgage might be affordable, the addition of rent and a service charge make it very difficult for most people to save anything on top, let alone enough to eventually leave shared ownership and buy a home on the open market."[82]

Housing associations developing new products, such as Metropolitan Thames Valley, are seeking to enable shared owners to increase equity gradually. It was noted that these schemes were popular, but many median earners in the South of England could no longer afford the "qualifying income" or deposit required to purchase a shared ownership home.

Addressing the concerns outlined will be critical to scaling up the shared ownership market. Various reviews and reports have called for other recommendations: simplification and improvement of products and leases, improving ways of staircasing without excessive costs and fees, creating a level playing field on capital weightings for lending to shared owners, bespoke shared ownership mortgages, improving marketing and branding of the product, ensuring fairer repairs and maintenance obligations, and changing lender perceptions of default rates. There have also been calls for further investment (or at least protection of current grant funding) to meet the demand for the product.

Do-it-yourself shared ownership

The Commission was told that there was a case for revisiting and scaling up DIYSO (Do-it-yourself Shared Ownership) schemes, which convert existing market sale properties into shared ownership: customers buy a share of a home purchased in the existing market and pay an affordable rent on the part they don't own.

Government support for DIYSO was withdrawn in 2000, although several housing associations have run similar schemes since – some, such as Heylo Housing's Your Homes (targeted at households who had previously been living in the PRS) and Moat & Sevenoaks District Council's A Home of Your Own (part funded from section 106 contributions). A few councils also run DIYSO schemes with housing associations, although most are small-scale.

The Commission was told that the government-subsidised DIYSO schemes had helped more households on lower incomes than the schemes that have replaced it, and that it was also significant in bringing larger homes into shared ownership. However, it was said that HomeBuy entailed much less subsidy per property and was more popular in part because of low interest rates.[83]

According to the Resolution Foundation:

"DIYSO has attracted less attention in recent years because it does not contribute to new supply. However, by bringing larger properties into shared ownership, it can help make the shared ownership market more liquid and attractive to buyers and investors, much as Help to Buy is trying to achieve for the conventional home ownership market."[84]

Pre-emption clauses

The Commission was told that it was important to protect the pre-emption clauses that social landlords currently have when someone wants to sell a shared ownership property. This effectively ensures that shared ownership properties on sale are not lost to the open market. Currently, if a housing association fails to find a buyer within eight weeks, shared owners have the right to staircase to 100% and sell the home on the open market.[85]

The government is seeking to change this, arguing that the system adds delay to the sales process. The Commission is concerned that too short a period under a "right of first refusal" would give the social landlord insufficient time to find a buyer on a shared ownership basis.

The Commission supports the scaling up of shared ownership products and believes more can be done to improve and simplify the deal for shared owners. The Commission sees little evidence for the idea of encouraging the sale of shared ownership homes on the open market before social landlords have had time to find a new shared ownership buyer or to buy the property back themselves.

Rent to buy

Rent-to-buy schemes are supported by Homes England and have recently been made compliant in the affordable housing qualifying conditions of the revised NPPF (2018). Most offer a shorthold tenancy at 80% of market rent, with the expectation that by paying less rent the tenant will buy a share of the home later. The Commission was told that the product (which covers a range of hybrids, such as buying a share of a new or existing home and paying a fee on the remaining equity and increasing equity stakes via overpayments) was aimed at middle-income earners who couldn't afford to buy on the open market.

Rent-to-buy schemes supported by the GLA and social landlords have become more widespread. Some local housing companies, such as Foundations in Liverpool, are investing in rent-to-buy schemes, often in partnership with housing associations. Privately funded providers (who work with social landlords) are also showing a growing interest. Rentplus, for example, which is backed by institutional investors, plans to have delivered 5,000 rent-to-buy homes by the end of 2020.

It was reported that tenants who were nominated by councils often couldn't afford to save and buy, especially in places where house prices were rising. However, the data is hard to verify and some products seem to work better than others; for example, there appears to be a higher success rate where the first year's rent is refunded as a contribution towards a deposit or tenants are given larger cash deposits to add to their savings.[86]

Living rent

Social landlords are the principal providers of living rent products, such as the London living rent. These models of intermediate housing are aimed at middle-income earners who are looking to buy (or part buy) and who don't quality for social housing. Rents are set locally at below market levels and based on local incomes.

The Commission was told that living rent models were popular and met a need in the market. However, it was noted that the discounts were typically set to achieve around two-thirds of market rents, which in many areas is too high to enable households to save for a deposit for even a shared ownership home.

According to analysis by the London Tenants Federation, only 23% of London's 632 wards have one-bedroom London living rent homes that are affordable to those on below-average incomes; in 10% of wards, two-bedroom homes were affordable; and three-bedroom homes were affordable in just 2% of wards.[87]

The Commission was told that there was a growing market for niche providers such as Dolphin Living in London, which offers discounted personalised rents (up to half the market rent) to key workers. Their personalised rent model, funded through Retail Charity Bonds, adjusts the rent to actual income and supports tenants into home ownership.

There are clearly major difficulties in scaling up personalised rent, not least because of the complexities in verifying incomes. However, as a study on Dolphin Living by Westminster University concluded:

"There is clear potential for the adoption of a personalised rent model to allow for the provision of more subsidised housing, without negatively impacting on the affordability of existing/planned housing."[88]

Ongoing research by IPPR on the living rent model suggests that directly linking rents to incomes can help rebalance the relationship between the dominant PRS and the social rented sector and create a better link between tenures that allows people to transition to home ownership. However, data availability is a major barrier.

The Commission was also made aware of flexible rent models, which allow tenants to pay more or less at different times of the year, depending on their financial circumstances. A pilot scheme by Optivo, for example, was reported to have helped tenants better manage their rent and debt.[89]

PART FIFTEEN

Struggling home owners

Affordability problems do not end when someone buys a property. Unemployment, relationship breakdown and changes in the costs of servicing a mortgage all have impacts on housing affordability for home owners. Some home owners are trapped in high-interest loans and face mortgage possession, others are so-called "mortgage prisoners".

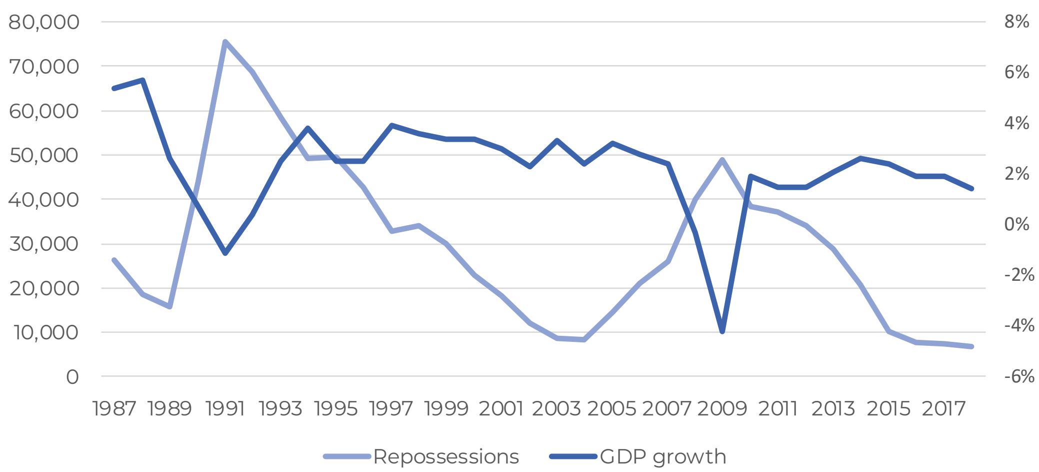
There will always be an element of risk to borrowing in the housing market. And individual circumstances do change, which is why it is important to examine whether the safety net is working well for those who face housing stress.

Help with mortgage interest

Mortgage possessions are at their lowest levels for 30 years – below 10,000 a year – affecting a small fraction of home owners with mortgages. Home owner mortgage arrears (or delinquencies) are higher, but still relatively small (72,000).[1] However, the Commission notes that the number of households struggling to pay their mortgage is much higher. According to the 2016/17 *Family Resources Survey*, over 1 million households stated that their mortgage was a heavy burden or that they struggled to meet payments.[2]

However, the relatively benign nature of the economy has reduced the level of possessions. This may of course not continue – as the graph below shows, when the economy goes into recession, possessions increase. However, it is also noteworthy that the number of possessions was lower in 2008 than 1991, despite the recession being deeper, indicating a more complicated picture.

Mortgage possessions and GDP growth

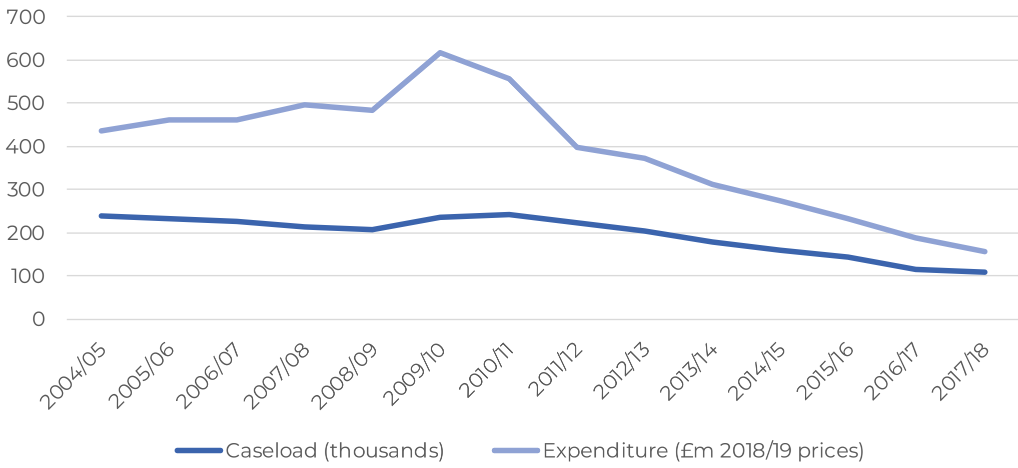


Source: Ministry of Justice, Mortgage & Landlord Possession Statistics Quarterly – Statistical Tables (data from UK Finance) and ONS, Gross Domestic Product: Year on Year growth: CVM SA %

Some households could encounter problems if a downturn occurred. Bank of England modelling suggested that a 1% increase in interest rates could reduce long-term house prices by just under 20%.[3] This would have serious implications for the number of households entering negative equity. An earlier analysis by Moody's suggested that a 20% fall in house prices would push 9% of borrowers into negative equity, with a stark divide between Northern regions (affecting over 20%) and borrowers in the South (under 1%).[4] An increase in unemployment to 8% is estimated to result in a doubling of households with a high debt servicing rate.[5]

Support is currently given to mortgagors in difficulties through the government's Support for Mortgage Interest (SMI) – currently being reviewed. This provides households with support for the interest (not principal) component of their mortgage and some other housing costs. SMI is a loan repayable with interest when the home is sold or ownership is transferred, and is targeted at those receiving a qualifying benefit. The total number claiming SMI is relatively small, at under 90,000.[6]

Support for interest payments



Source: DWP, Expenditure and Caseload forecasts (2019)

Like many benefits, SMI has evolved. Currently, people receive help with interest on up to £200,000 of their loan or mortgage (dropping to £100,000 for some recipients). Payment to working-age claimants is only made after a 39-week waiting period, and the interest rate paid is the standard rate based on the average mortgage rate rather than the interest actually owed on the mortgage.

The Commission found several areas of concern. First, the amounts claimed are much lower than what tenants can claim in housing benefit. As the CIH has noted, any scheme needs to avoid a situation where:

"...it is possible for a home owner to be repossessed, only to be rehoused in rented accommodation where they will get the help with their rent they were denied

with their mortgage. This is particularly perverse in the context of average levels of payments for support with rents being considerably higher than average levels of SMI."[7]

Second, past evidence from the Council of Mortgage Lenders has noted that under the current system interest is paid at the standard mortgage rate (the average mortgage rate rather than the interest actually owed on the mortgage), and just over half of SMI claimants were in fact paying an interest rate above the standard rate. The DWP has noted that paying the actual interest rate would be administratively complex. They stated that when this was the case in the 1990s, it led to significant levels of error, with changing rates leading to under- and overpayments.[8] While the Commission would not wish to see administrative complexity, technology has moved on since the 1990s and housing benefit is calculated on the basis of actual rents being paid. This would not involve additional costs (as just under half receive amounts above their costs) to the Treasury, and could even result in savings,[9] and would help those with much higher rates. Those with higher rates may also have been on the margins of home ownership and therefore at greatest risk.

Third, while there may be a rationale for converting support from a benefit entitlement to a loan – given that many people have housing equity – a sudden drop in prices might also result in households with little or negative equity. Evidence also suggests that people are not positively disposed to taking government loans and see them as another debt to be repaid.[10] It will therefore be important to know whether the loan, rather than benefit, structure is affecting take-up rates. There is also the question of the fairness of a system which singles out SMI for loans rather than a benefit.[11] The Commission was told that a hybrid system could be adopted, with support paid as a benefit for a limited period and then converted into a loan.[12]

Fourth, the Commission was of the view that the 39-week wait was excessively long. The long waiting period was introduced in 1995 to help support the take-up of mortgage insurance. However, take-up rates have remained low, with a range of barriers stopping further take-up. It is therefore hard to justify such a long period between making a claim and receiving support.

Fifth, the increase of the limit of mortgage support at £200,000 for working-age households during the crash was shown to reduce possessions and arrears. It is therefore welcome that the government in 2016 did not return to the previous cap. Nevertheless, there may be a case for introducing a higher cap for London and the South East, where prices are higher.

To prevent hardship and a fall in home ownership during an economic downturn, the Commission recommends restoring support for mortgage interest (SMI) as a benefit not a loan, reducing the waiting period, introducing regional caps, and linking payments to actual costs.

Support as a last resort

Following the last financial crisis, emergency measures were also brought in to ensure that families did not become homeless if they could not meet their mortgage payments. Support came in two forms: the Mortgage Rescue Scheme (MRS) and Homeowners Mortgage Support (HMS), which helped borrowers who could not access SMI, but was abolished in 2014.

MRS provided relief for borrowers facing homelessness. Some households were able to negotiate a repayment plan, but for those for whom the repayments were viewed as unsustainable, a housing association could purchase the home and rent the property to a borrower at up to 80% of market rent. Where there was significant equity in the home, a housing association could offer a shared-equity loan.

An interim review found that between January 2009 and March 2010 the scheme helped 629 borrowers, but also provided free advice to over 20,000 households.[13] An evaluation by the NAO in 2011 suggested that overall it had helped 2,600 households directly.[14] The interim review found there was support for the scheme to become a permanent feature of homelessness prevention. The scheme was introduced at speed in response to the financial crisis, resulting in operational problems alongside concerns about the complexity of cases with negative equity and multiple charges on the homes. It came at a reasonable cost to government, although the shared-equity option was found to be cheaper for government and not imprudent.[15]

The Commission suggests the government builds on the lessons from the previous mortgage rescue schemes with the intention to establish a new form of mortgage support as a measure of last resort

Mortgage prisoners

The issue of so-called "mortgage prisoners" (households stuck paying high interest rates because they cannot re-mortgage on better terms and are unable to pass the mortgage affordability tests) was brought to the attention of the Commission by UK Finance. According to the FCA's research, around a quarter of million households have closed mortgage books or with mortgages from firms not regulated by the Authority. Around 170,000 of these borrowers are up to date with their payments and would be eligible to switch.

Several reforms have been made to support this group, including processes for disclosure and modified affordability assessments. However, the Commission was told that while borrowers were free to re-mortgage, many would not be able to access better rates. There is a voluntary agreement to offer better rates, but not all regulated lenders have signed up.[16]

StepChange Debt Charity has criticised the rules governing up-to-date payments, noting that many of their clients would not have experienced difficulty if they had been paying a market rate, rather than standard variable rate. As unregulated mortgages fall outside the control of the FCA, the charity has called for the FCA to work with the Treasury to legislate to ensure adequate protection is there for current and future borrowers.[17] While unregulated lenders are obliged to contact mortgage prisoners,[18] there may be a case for ensuring that all customers have adequate protection.

There is also a wider issue around whether the market is working effectively to ensure people are on the best interest rate. There have been concerns that borrowers are paying a "loyalty premium" for not switching from the higher-interest standard variable rate. FCA research estimates that around 30% of customers purchase a more expensive mortgage despite there being similar mortgages available at lower costs. On average this comes at a cost of £550 a year for the duration of the mortgage's introductory period. The FCA has suggested that those whose mortgages offered poor value for money were more likely to have higher credit risks and on lower incomes. They noted:

"Weak financial capability, a lack of transparency on some eligibility criteria, [and] a preference for more familiar lenders among both consumers and intermediaries may be possible drivers of missed savings."[19]

To help "mortgage prisoners" who cannot move home or re-mortgage at a lower interest rate, the Commission recommends the FCA allow a less stringent stress test for these exceptional cases.

PART SIXTEEN

Housing delivery

While efforts to tackle demand side pressures to ease affordability problems are essential, so too will be increasing housing supply. The number of households (family units) exceeds the number of homes. Additional housing supply – sustained overtime - is needed to bring down longer-term housing costs rises. Increasing housing supply could help reduce relative rental costs for those in the PRS and help support people into home ownership. And, without private development, the cost of funding social housing would rise considerably.

Meeting the targets

Delivering the number of new homes outlined in housing needs assessments would require building around 350,000 homes a year. Currently housing completions total around 165,000 homes (although net additions are higher). While increased social and affordable housing would help reduce the supply gap, data on completions suggests that an increase of around 100,000 private homes a year would be needed to meet that ambition.[1]

There were two main areas that the Commission wished to explore in delivering the step change in overall housing delivery numbers. The first was whether increasing supply could be achieved without embarking upon a programme of new towns. The second was whether the capacity and skills were in place to build the additional homes.

The Commission has made clear the need to set targets on guiding affordability. As mentioned, this will require national targets for house building. These are likely to change over time as they are based on factors such as wages and incomes (and their distribution), household growth and immigration, regional and subregional growth and recent housing delivery levels.

Having these updated targets and needs assessment will be vital to guiding wider government intervention and to tackling resistance to development. This would include levels of funding, where funding needs to be directed in both tenure and location, and expectations of local authorities and combined authorities. This assessment of housing need should inform national ambitions for house building. The government does have a target for delivering 300,000 net additional dwellings a year,[2] and is committed to building 1 million homes over the next parliament.[3] However, there is little detail about where these homes are likely to be delivered.

The Commission received evidence that the "where" issues should be addressed through a national spatial strategy, with regional and subregional planning mechanisms.[4] Regional planning remains controversial and is seen by some councils as too top-down.[5] However, as the Communities & Local Government select committee noted, the lack of regional planning has left a void between often under-resourced local planning authorities and national policy objectives.[6] A similar view was given in the Raynsford planning review, which noted that London was a powerful example of how regional planning could work effectively.

The Commission was mindful of the benefits of regional planning – including co-ordinating housing with transport and other infrastructure plans, clearer target setting and burden sharing – but also conscious of the disconnect between the structure of English local government and the development of regional (and subregional) plans.

The evidence suggests there is a strong case for strategic regional planning to enable better co-operation across local authority boundaries, but it would need the support of central government and the willing consent of local government.

Measures of supply requirements are determined at a local level. The introduction of the housing delivery test seeks to ensure that local authorities are delivering on the housing supply requirements outlined in their local plans. However, a high proportion of local authorities do not have a local plan, or their plan is not up-to-date, and some are predicted to fail the delivery test – see below.[7]

The housing delivery test

The housing delivery test compares the number of homes delivered in a local authority area over the previous three years to the number of homes required.[8] Councils that deliver 95% or less have to complete an action plan and can face sanctions (around a third of councils so far are required to make an action plan, to be approved by MHCLG).[9] Critics claim the test is too simplistic and punitive, and underestimates housing need, especially for social rented homes. The National Association of Local Councils states that housing delivery should be focused on developers' build-out rates and that planning permission should be removed where sites are not delivered. However, the Commission was also told that the revised definition of "deliverable" within the NPPF was a significant improvement.

The Commission believes there is a strong case for a national spatial plan based on regional plans (which would include housing and affordable housing targets) but is aware that such a move would require a strong commitment from both central and local government. The Commission was also told that just making something a statutory duty was not enough – government enforcement and sanctions were also needed.

The Commission recommends that the preparation of local plans be made an enforceable statutory duty to ensure that all councils are delivering on their housing plans and targets. Local and city-region plans must be based on accurate housing needs assessment – including numbers of concealed households – which should be updated regularly.

New Homes Bonus

The New Homes Bonus, worth £900 million a year (mostly funds top sliced from the revenue support grant), seeks to incentivise housing delivery.[10] Based on the amount of extra council tax revenue raised for new-build homes (above a minimum growth baseline), it represents an important source of funding for some councils.

While many councils support the principle of "rewards for housing growth", there are concerns about the way the NHB operates, particularly whether it is helping meet housing need (with the focus on housing numbers rather than additional social or affordable housing) and whether it is compromising housing quality. The Commission was told that the scheme rewarded authorities in wealthier areas (especially shire districts) and that it would be better if the weighting methodology was based more on councils increasing their housing stock in percentage, rather than absolute, terms.

The Commission welcomes the government's forthcoming review of the New Homes Bonus. Any new scheme should provide greater certainty and focus on rewarding councils for providing additional social rented housing.

Devo housing

The Commission was told that the development of single statutory regional strategies (spatial development strategies) – alongside the duty to co-operate for local authorities – had helped the combined authorities with their housing planning. It was also said that London had benefited from having its own directly funded affordable housing programme and London-wide housing plan (a shared responsibility of the Mayor, the 32 London boroughs and the City of London).[11]

However, at the Commission's regional events it was reported that household growth was twice that of new housing supply in the combined authority city-regions and that the devolution deals on housing had so far failed to recognise the pent-up demand for affordable homes. In Manchester, the Commission was told, the devo housing deals struck with government were a "halfway house". Paul Dennett, city mayor of Salford and Greater Manchester portfolio leader for housing, homelessness and infrastructure, said:

"The metro mayors lack the financial resources, the certainty that allocated long-term funding provides and the required flexibility regarding prioritisation to tailor policies for local need and ensure enough truly affordable housing is built to tackle the housing crisis made evident by the severe challenges we face in terms of homelessness and rough sleeping."

Homes for the North agues that the national planning policy is biased towards new build in the South and is acting as a brake on housing investment elsewhere. Other regional partnerships claim that the funding formula devised by Homes England (notably for bids for the multi-billion Housing Infrastructure Fund and Home Building Fund) crudely favour "high-pressure affordability" areas in London and the South.

It was said that future devo deals needed to rectify this imbalance and take a more place-based approach, with housing investment viewed as a driver of jobs and growth.[12] The Northern Housing Consortium also stressed that extra funding was needed to raise the quality of existing homes, not least in the PRS and among owner-occupiers (see section on "Affordable Housing Quality").

The Commission was told that In the North East, for example, over the past decade there had been big differences between places where affordability had worsened, such as County Durham and Newcastle upon Tyne, and those where it had remained unchanged, such as Stockton-on-Tees, Sunderland and Darlington.

The eight city-regions (encompassing 51 local authorities and 27% of England's population, excluding London) have proposed ambitious affordable housing targets: Greater Manchester, for example, plans to provide 50,000 additional affordable homes by 2037, 30,000 of them for social rent.[13] Some are also piloting new approaches, such as heavily discounted "£100K homes" for first-time buyers in Cambridgeshire and Peterborough[14] and recent plans by the West Midlands Combined Authority to overhaul its definition of affordable housing – linking affordable housing rents to mortgages at 35% or less than the average gross earnings of the lowest quarter of wage earners in a local area.[15]

While the fragmented and ad hoc nature of the devolution process in England has led to different arrangements in different places (with housing policy and funding only partially devolved outside of London),[16] the general impression from housing providers and other stakeholders in the regions was that metro mayors and combined authorities could make a difference, not least in strategic planning, more joined-up policy making, consolidating funding streams and new funding tools. The JRF argues that combined authorities are well placed to lead on addressing poverty and deprivation and should be granted more support to link housing development to poverty reduction, especially in the PRS.[17]

It was clear to the Commission that some of the city-region leaders, in Greater Manchester for example, wanted greater devolution over housing matters, not delegation or joint decision making. It was said that greater autonomy and fully devolved long-term housing budgets for the metro mayors – equivalent to that for the London mayor and GLA – were needed, alongside increased grant funding.[18]

The Commission welcomes the government's commitment to publish a devolution white paper. There is a need to "level up" the housing powers and resources and ensure that the funding and flexibility is in place to meet the metro mayors' housing targets.

Property taxes

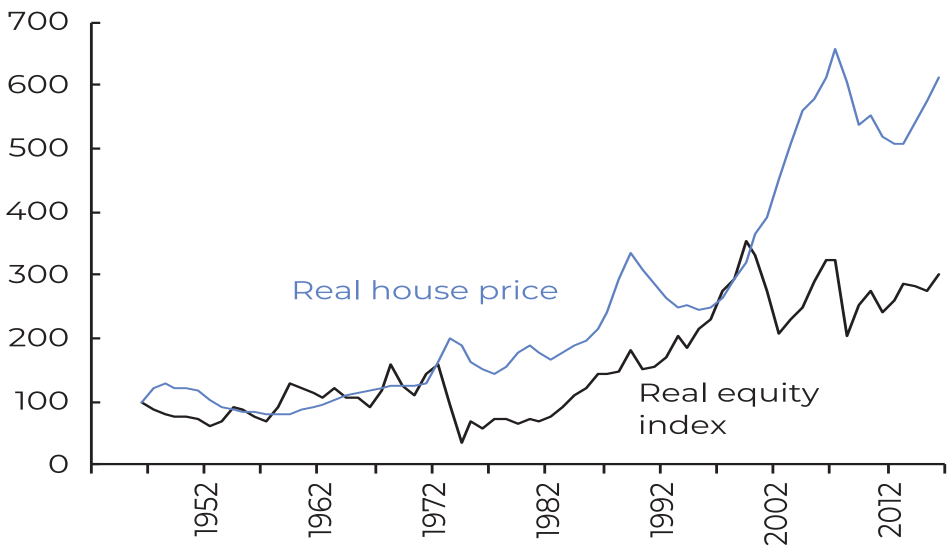
Earlier discussions about the planning system and planning gain could be described as development taxes, but there is a much broader issue of how property tax affects housing markets.

The debate about the extent to which housing has become financialised also hinges on the tax incentives that government offers for investment in housing and specific forms of housing. The Commission wished to examine the extent to which housing was tax advantaged and the implications this might have on house prices and housing affordability. The Commission also wanted to explore whether the system could be improved to reduce housing stress.

Housing tax is politically sensitive and very personal. While the Commission did not discuss the political risks surrounding different tax options, it was aware – in part through its own polling and focus group work – that the majority of households, including renters, seemed to view property taxes through the prism of home ownership and housing as an investment. In the deliberative focus groups with aspiring first-time buyers, for instance, there was a reluctance to consider price deflation to support them into home ownership because they wished to secure the financial gains once they had bought.

This mindset may not be surprising when considering that the returns on investment in housing have performed particularly well in recent decades, outstripping returns from equities. Any sudden change in the way that property is treated by the tax system, especially when people invest in housing as an alternative asset class, often for retirement, is therefore likely to come up against claims of unfairness.

Real housing prices and equities index (1946=100)



Source: Chadha, J Commentary: The Housing Market and the Macroeconomy (NIESR, 2018)

Nevertheless, there are issues that need to be reviewed to ensure that housing tax is supporting, not entrenching, housing unaffordability. If housing is tax advantaged, then it could be having negative effects on the economy, with capital directed to less productive use and hindering the efficiency of housing markets. And most importantly for this report, if there is over-accumulation of housing by some then this could have implications for resource misallocation, inequality and the distribution of the stock.[19]

While discussions about economic efficiency, tax revenues from housing (which are higher in the UK than other OECD countries)[20] and macroeconomic stability have to be considered, there appear to be two specific questions about affordability – whether tax treatment is leading to higher prices, which is affecting the affordability for some households, and the related question of whether it favours some tenures (or existing households within those tenures) over others at the expense of those who are likely to face the most acute affordability problems.

There are several taxes associated with housing: council tax, capital gains tax, stamp duty and inheritance tax. In addition, maintenance and repair costs are liable for VAT. Council tax, the largest in revenue terms, is widely seen as inefficient and unfair, but is also politically charged as reform options create winners and losers – owing in part to the fact that valuations on which council tax is based have not been updated since 1991 (when the tax was introduced).

Leaving aside the lack of uprating to reflect changed (and very different) property prices, charges increase more slowly than increases in property values – extremely highly valued properties are charged at the same rate as those many multiples lower but also in the top band. Council tax has also been shown to be regressive as a proportion of household income.[21]

Stamp duty, which has been around in different forms for centuries, has also faced considerable criticism. It was singled out as constraining people from moving home,[22] with some evidence that it particularly affects moves within a small distance.[23] Research by the LSE suggested the stamp duty holiday in the UK increased housing transactions.[24]

The constraint on household moves results in a less efficient use of the housing stock, with people penalised for trading up or down the housing ladder. It has been posited that stamp duty could be used as a macro-prudential tool to reduce house price inflation in economic booms.[25] However, international evidence on stamp duty on price volatility suggests the opposite might be true.[26]

Capital gains tax plays a less prominent role in the UK housing system. It is not levied on home owners, only on second homes. However, like stamp duty it can discourage transactions and the release and use of under-utilised housing.[27] While costs could be deferred, the Commission was told that reforms might unfairly affect those who experience relationship breakdown and are forced to move. The evidence also does not suggest that reforms would reduce volatility, and the distributional impact would depend on how they were introduced.[28] Perhaps more importantly, extending capital gains tax to principal homes is likely to be politically divisive, which may explain why it is only levied in a few countries. Similarly, reforms to inheritance tax, so it can play a greater role in the housing market, are likely to prove politically challenging.

There remains the question of whether housing is taxed differently to other asset classes, which could be directing capital away from more productive uses. The evidence does suggest that home owners have certain tax advantages – specifically from tax exemption of imputed rents and capital gains.[29]

However, the evidence regarding other non-housing assets is not clear. Indeed, it is not a straightforward calculation, because housing is both an investment and consumption good. The Institute for Fiscal Studies suggests that as an investment product for principal homes it is not taxed more lightly than ISAs and private pensions in their tax treatment of contributions, returns and withdrawals, as they also receive exemptions (although they do note that housing may be taxed more lightly than housing consumption).[30] Furthermore, according to Professor Muellbauer:

"However poorly designed are UK property taxes, it is hard to argue that they have contributed to relatively high housing prices in the UK compared to Germany when property tax revenue is so much higher in the UK."[31]

Given the evidence, the Commission believes that the focus of housing tax reform should be on making the system more efficient and fairer.

Land value tax

There were a number of submissions calling for a land value tax (LVT). This would be aimed at taxing underlying value of the land (placed on land owners), rather than investment into improving the quality and quantity of the housing stock. The Commission was told it was an efficient tax as it encouraged owners to use land as productively as possible (since it is the land, not the activity, which is taxed) and is hard to evade. It arguably, therefore, provides an incentive for land owners to build, as holding onto undeveloped land becomes an expensive option.

LVT is presented as a progressive tax and helpful to improving overall affordability. However, there have been questions about the potential benefits and practicalities.[32] For example, it is unclear what the impact might be on asset-rich, income-poor households. Concerns have also been raised about what it might mean for tenants and whether the tax would lead to higher rents.[33]

There may also be a specific issue for social tenants and landlords, especially in high-demand areas. Careful consideration would need to be made to its introduction, with the risk that introducing the tax would herald a sudden fall in land values.[34] It would also require accurate valuations, which would further amplify the impact of the tax. The valuation process itself would also be difficult (separating the land value from what sits on it) and could be contested. This is all before the political considerations are factored in. Even if the losers would be in a minority, in absolute numbers it would be a lot of people, who might be geographically concentrated.[35]

An international review for the Scottish Land Commission suggested that while working in theory, case study examples did not support the claims that LVT led to better productivity and diversity of land ownership that spreads the benefits of land more evenly. The review also found examples where the taxation of the capital costs provided a more buoyant revenue stream and could achieve a better distribution of the tax burden and reflection of the ability of owners to pay.[36]

This would more align with the findings of the Mirrlees review, which recommended that for residential property a housing services tax should be introduced. The review suggested that council tax and stamp duty should be replaced by such a tax, charged at a rate of 0.6% of the value of the property to ensure revenue neutrality. The system would effectively get around the banding problem and property valuations would need to be updated every few years. The modelling suggests that it would be broadly progressive in its impact on household incomes. It also suggests that it would reduce top-end house prices, but would increase the value of lower-valued properties.[37] Such a move would create a fairer system, and if used to replace stamp duty, could help increase mobility, transaction levels and downsizing.

The Commission recognises that property taxes can play an important part in housing affordability and believes the time has come for a comprehensive review of council tax.

Taxes and the PRS

The Commission was also interested in how the tax system was affecting the PRS. It was noted that although overall tax arrangements had long favoured established home owners over private landlords,[38] the PRS has continued to expand regardless. As mentioned, recent tax changes (such as the limits on mortgage interest tax relief) have been aimed at cooling the market, especially buy-to-let.

The impact of these tax changes is yet to be fully understood, especially within the context of other new (and proposed) regulatory requirements on landlords.[39] The Commission was told that there had been a steady number of private landlords exiting the BTL market, but overall the decline may not be as large as forecast.[40] The English Housing Survey, for example, suggests the number of households renting privately peaked in 2016/17, but last year saw a slight increase.[41] It was also suggested to the Commission that (for now) it was the larger, professional landlords who were selling more than acquiring, mainly poorer-quality one- or two-bedroom flats.

Given the uncertainty, the Commission was of the view that further taxes placed on private landlords would not at present be sensible until the full impact of these changes was understood. However, the Commission was interested in whether the tax incentives could improve standards within the PRS.

A major concern was that benefits to the landlord for upgrading a property might be only partial, because tenants are not sure about the quality of the stock and any improvements might not be reflected in the rental value.[42] This of course could be supported by regulations requiring certain basic standards to be met. Furthermore, without subsidy there may be little incentive to improve poor-quality housing, because of the high level of demand. Using tax incentives might be one way of tackling this problem.[43]

As has been argued by the CIH and the Resolution Foundation, investment to raise eco efficiency standards could be exempted through the tax system as an allowable expense.[44] The JRF suggested that tax relief concentrated on poor-condition properties could help those in poverty.[45]

The Commission recommends that the government undertake a review of measures to improve both affordability and quality in the PRS. This could include improving the information, inspection and redress systems as well as examining the case for tax incentives to bring properties up to the Decent Homes Standard without involving a rise in rents to unaffordable levels.

New communities

New town development in the post-war period played an important role in boosting the supply of housing. At their peak around a dozen new town developments were delivering 20,000 new homes a year.[46] And today the 32 new towns that were built are home to 2.5 million people.[47]

Previous housing commissions, such as the Lyons review, have called for new freestanding garden cities and new towns.[48] Given land constraints in high-pressure areas, the Commission was of the view that building new communities remained an important part of increasing housing supply to improve housing affordability. As the National Planning Policy Framework notes:

"The supply of large numbers of new homes can often be best achieved through planning for larger-scale development, such as new settlements or significant extensions to existing villages and towns, provided they are well located and designed, and supported by the necessary infrastructure and facilities."[49]

The government has committed to building up to 10 new communities,[50] and last year (in its spring statement) announced extra funding to support priority projects, such as the Oxford-Cambridge Arc.[51] The Commission was told that if these new towns were to help meet national housing goals, they would need to be built at scale, with government investing heavily upfront in the enabling infrastructure. This in turn will require renewed effort to overcome the attitudinal barriers to building new settlements. The Commission's focus groups, for example, highlighted concern about places lacking character, being insensitively designed, and poorly connected to nearby conurbations. The Commission holds the view that new settlements require high-quality place making and careful thought given to design, transport and the planning concerns highlighted by the TCPA's work on new Garden Cities.[52]

The Commission's recommendations around development corporations and land value capture should help with the development of new communities. However, the Commission was told that development corporations should only be permitted in areas with up-to-date local plans or spatial development strategies (if they are mayoral development corporations).

Where the uplift is not enough to support a mix of new housing, government should play a leading role in providing and leveraging funding and financing. Beyond direct grants, there is scope for innovative funding methods, such as tax increment financing (TIF). TIFs can fund infrastructure projects and involve establishing special-purpose vehicles which borrow money to fund the upfront cost of that development, which is paid back by capturing the increases in local taxes such as property taxes.[53] This has been used to fund the Northern Line extension in London, and a number of projects are currently being funded by TIFs in Scotland.[54]

The Commission welcomes the government's commitment to build new communities. Government should play a leading role in supporting local authorities to ensure that the new settlements are of the scale and quality required to increase supply and ease affordability pressures. This should include supporting the costs of infrastructure, through not only land value capture but also innovative funding models such as tax increment financing.

Greenbelt

Some of the evidence the Commission received suggested that a review of the greenbelt could support an increase in housing supply. However, others the Commission heard from were much more cautious about re-designating green-belt land for housing. It was said that the issue often divided local opinion and that any reforms should be treated cautiously.[55]

Under current regulations, local planning authorities define and maintain green-belt land within their area. National planning policy sets out the purposes of the greenbelt and expects the local authorities to establish the boundaries, which can be altered as part of the local plan review process, in consultation with the community.[56] Although there are exceptions to when designated land can be either re-designated or used for housing, the system remains highly restricted.[57]

For some, the exceptions need to be tightened. For others, the greenbelt has constrained land supply, pushing up land values to the detriment of housing affordability. Advocates of planning deregulation, for example, claim greenfield and green-belt protection has exacerbated affordability problems.[58] The Commission is wary of any root-and-branch reform and is unconvinced that widescale re-designation will lead to more affordable homes – not least given the high value of much of the greenbelt.

Increasing the supply of affordable homes may in the longer term require examining the case for re-designation of small areas within the greenbelt. However, the Commission agrees with the RTPI that any change should be only be made after careful reviews over wider areas than those of single local authorities.[59]

The Commission recommends that government's forthcoming planning white paper includes an extensive public consultation on greenbelt reform, including consideration of housing affordability.

Skills and modern methods of construction

Delivering a substantial increase in housing delivery will require additional government investment and reforms to bring forward land. However, building the homes will be reliant on having a large enough skilled workforce, supported by productivity gains to increase output.

The strains are already evident, with wages in the construction sector rising at a faster pace than wage growth across the economy.[60] Construction firms, particularly SMEs, are struggling to hire skilled tradespeople[61] and a large proportion of the sector's workforce is due to retire over the coming years.[62] There are also anxieties about skilled EU workers leaving the country and not being replaced.

Government and the construction industry are working together to meet the challenge and new initiatives have been taken.[63] However, much more needs to be done to improve the capacity and capability of the construction sector in order to meet the housing targets.

An important way of increasing supply will be boosting the productivity of the house building sector. The government-backed Farmer review (subtitled *Modernise or Die*), which highlighted the lack of productivity gains within the construction sector, called for increased use of modern methods of construction.[64] According to new research from the CITB, using modern methods of construction could reduce the number of construction workers needed to meet the government's housing target by 20%.[65]

The Commission received evidence calling for much greater support for modular housing, which has traditionally been less popular in England than mainland Europe. Nevertheless, output of prefabricated homes is about 15,000 a year[66] and new factories are being opened, some with government support.[67]

Parliament's Housing, Communities & Local Government Committee commented that modern methods of construction were particularly well suited to social housing because the large volumes of standardised accommodation helped to bring down unit costs.[68] Evidence from Together Housing, a pioneer in offsite in the North, concluded that "traditional building methods alone are not enough to meet the ever-increasing demand for affordable housing".

The Commission was informed that an increase in social housing could be an opportunity for more volumetric forms of modern methods of construction to reach a much bigger scale. It was mentioned that this was important not just in terms of lower cost and faster delivery, but also in helping to tackle construction skill shortages and improving eco efficiency (and thereby reducing running costs for tenants).

However, few commentators see modular housing as a quick fix to the affordable housing crisis. According to the Academy of Urbanism, "prefabrication is not a panacea. It will take time and concerted effort to meet the quantity and quality criteria through off-site construction."[69]

Getting the scale needed will be challenging. The Commission was also told that at least for private house building, building quicker did not translate into selling quicker, as sales rates were determined by sales prices.[70] To compensate for that the government will need to target its support more on off-site social rented housing.

The Commission was told of a range of ways that modern methods could be supported. These included: improving access to finance, improving building regulations and quality assurance, ensuring skills availability, increasing use of these methods by social housing providers, and supporting greater take-up through Homes England programmes.[71]

The Commission calls on the government to take more concerted action to address the worsening skills crisis in construction and to consider new incentives to support modern methods of construction, especially for modular social housing.

PART SEVENTEEN

Conclusion and recommendations

Something has gone fundamentally wrong with the housing system and what it offers local people. As this report illustrates, more and more households – in both urban and rural areas – are facing housing stress or cannot afford to repair or heat their homes. Unaffordability has become a feature of all housing types and forms, evident across new and existing markets. It is now a serious concern, particularly for large numbers of low-income households. A fifth of the population are spending disproportionately more on their housing costs – 40% of those in the bottom half of incomes now have an affordability problem.

Housing stress is impoverishing families and young and old struggling renters, creating debts and arrears, harming health and well-being, and limiting life chances and aspiration. There are wider negative effects too – on the economy and productivity, on wealth inequality and poverty – resulting in more public expenditure subsidising rents and healthcare and tackling homelessness.

The Commission believes there is an underlying structural problem at the heart of the unaffordability crisis, caused by the halving of low-cost social housing and the doubling of the PRS. This shift – which has taken place over 20 years – has left the housing system seriously unbalanced. The PRS is now expected to provide for groups for which it is ill equipped: families who need secure homes within their means, those on state benefits, older people on low incomes and those needing extra support. It has also denied many the chance to save for a deposit to buy a home.

The Commission concludes that the answer lies in redressing the imbalance that has emerged, with some in the PRS needing support to become home owners and others – a significantly larger number – needing affordable rented accommodation from social landlords. Starting with a redefinition of how we define affordability and how to measure it accurately (not by market prices, but according to people's actual incomes and real-life circumstances) the Commission has proposed a package of interlinked proposals, including setting a target to ensure, across all tenures, access to affordable housing opportunities for all by 2045.

The report's recommendations are largely aimed at recalibrating housing policy and programmes, and focusing attention on the necessity for a substantial social housing programme. The intention is to reduce housing stress and help create mixed communities that are affordable and a joy to live in. To achieve that, affordable public housing needs to be seen by government as a strategic investment, which can deliver lasting benefits to individual households and wider society.

There are no easy answers to reducing housing stress, which is not unique to the UK. The causes of housing unaffordability go back decades and are intrinsically related to other factors, not least flat income growth, austerity and a prolonged period of low interest rates and, in many areas, rising house prices and higher rents. The human and societal costs and consequences, though, cannot be ignored and are likely to worsen as Generation Rent ages and more lower-income households are forced to live in the PRS.

As this report makes clear, creating substantially more accommodation for those on below average incomes and improving housing quality will require a sustained effort and a step change in resources allocated to social housing and improving the nation's housing stock. Solutions, such as those in this report, are possible but they will require a sustained effort, substantial on-going investment and time to deliver. The key ingredient will be the political will, both locally and nationally.

Connecting the solutions – big and small – and ensuring that there is co-operation, community involvement and local discretion will be difficult. But the Commission believes it can be done and that a "coalition of the willing" is forming to make the change.

The Commission proposes the following measures to reduce housing stress and rebalance the housing system.

Affordable housing for all

1. The Commission recommends that the government commits to ensuring that no child born today should face living in housing that is unaffordable for them by the time they are likely to form a household of their own. Across tenures, this would mean access to affordable housing opportunities for all by 2045.
2. To meet this target, the Commission recommends central government works with local government to draw together a National Housing Strategy, adopting recommendations from this and other reports.

Redefining affordability

3. The Commission proposes a new definition and alternative measures of housing affordability, focused on incomes and personal circumstances, rather than market prices. Our measures are based on an affordability threshold at the point when rents or purchase costs exceed a third of net equivalised household income (and take account of related affordability issues, such as housing quality, overcrowding, adequacy of housing benefit, household size and regional variations).

4. The Commission recommends the government adopt the housing affordability definitions, measures and targets as outlined in the report – so they are embedded into national housing policies and plans (i.e. as both a normative threshold and practical guide to policy making).

Rebalancing the housing system – social housing

5. The Commission recommends that the government seeks a step change in affordable housing supply in line with the latest assessments of housing need. On current best evidence, this would equate to an increase to about 90,000 social rented homes a year (forming part of the government's overall housing target of 300,000 homes a year).

6. The Commission recommends that in order to deliver the necessary increase in the supply of social homes, bearing in mind the necessary expense for improved safety measures and decarbonisation, the government must increase the level of capital investment in affordable housing to at least the level prevailing in 2010. Such investment brings additional economic and social benefits.

7. The Commission supports the government's encouragement to councils to build again at scale, directly and through local housing companies. Achieving that ambition will require increased resources for councils to deliver a high proportion of social housing in mixed-tenure developments.

8. The Commission calls on the government to reduce the reliance of social landlords on the cross-subsidy development model through higher levels of public investment. Greater support should also be given to the development of new rent models for low income households, such as living rent and flexible rent.

Rebalancing the housing system – private rented housing

9. The Commission welcomes the growth of build-to-rent homes and wishes to see the sector expand in order to provide additional affordable homes. The government should consider tax changes to remove barriers to growth, including ending the stamp duty surcharge for investors in build-to-rent.

10. The Commission calls on the government to support (through extra funding) the scaling up of schemes to enable social landlords to buy existing properties and empty homes for social renters, especially non-decent homes in the PRS. Such programmes can help improve housing conditions, bring the benefits of regeneration to an area for lower costs than demolish/rebuild models and can contribute to the revitalisation and levelling-up of areas outside of cities.

Social rents

11. The Commission recommends the ending of the Affordable Rent product. If transitional funding is available and where financially viable, social landlords which have built and converted homes to Affordable Rent should aim to return the homes to social rent or otherwise to intermediate rent, when tenancies end.

12. We recognise the need for the current arrangements for increases to existing

social rents – at CPI+1% a year which accord roughly with increases in earnings - until 2025. Thereafter, the government should work with the social housing sector, tenants and the Regulator for Social Housing to design a sustainable future rent settlement that takes into account affordability for tenants and the welfare system, while delivering long term investment in existing and new homes.

Private rents

13. The Commission recommends that new rent regulations be introduced alongside the legislation ending section 21 "no-fault" evictions. Annual rent increases would be limited to an index of income growth for a fixed period.
14. The Commission recommends that charging more than the permitted rent increase would be an offence, with the landlord facing a fine and having to return the excess rent to the tenant. Enforcement will be needed where the law is broken with proposed rent regulation by the First-tier Tribunal (or new housing courts if these are established).
15. The Commission welcomes the intention to end the local housing allowance (LHA) freeze but urges government to recalibrate LHA rates to the 30th percentile of local rented properties and recommends that in the future, uprating of LHA should be in-line with local rental prices and not general inflation rates.

The Right to Buy

16. The Commission recognises that the Right to Buy remains a popular scheme. However, it is undermining efforts to address affordability, reducing numbers of relets at lower rents and moving properties from social renting to the PRS. Accordingly, the Commission recommends that the RTB is radically overhauled, including giving councils and housing associations discretion over the level of discount they offer, complete control over receipts and the opportunity to restrict any letting by a purchaser (e.g. requiring consent for letting the property).
17. If the voluntary RTB is extended to other areas, the Commission recommends that current requirements for one-for-one replacement should be tightened to include like-for-like replacement by tenure -properly funded by government support - so that sales do not result in a loss of social housing.

Shared ownership

18. The Commission supports the scaling up of shared ownership products and believes more can be done to improve and simplify the deal for shared owners. The Commission sees little evidence for the idea of encouraging the sale of shared ownership homes on the open market before social landlords have had time to find a new shared ownership buyer or to buy the property back themselves.

Land and planning

19. The Commission urges the government, in its forthcoming planning white paper, to focus on reforms to improve the supply of affordable homes. These should include: returning permitted development rights powers back to councils, support for alternative approaches to capturing "hope value", and ensuring planning authorities are adequately resourced. The Commission also recommends government encourages local authorities to be resolute in requiring a level of affordable (and especially social rented) housing from section 106 Agreements.
20. To reduce high land costs and the excessive gains achievable from the receipt of planning consents, the Commission urges the government to press ahead with the Letwin review recommendations for acquisitions and land value capture through new development corporations established by councils. We recommend the definition of large sites as over 500 homes.
21. The Commission recognises government plans to address affordability problems facing first time buyers through the First Homes proposal using section 106 agreements on house builders. The Commission believes such housing should not come at the expense of reduced obligations on housebuilders to provide social housing and other successful affordable home ownership products. Government should also ensure that the new scheme does not override local planning authorities' objective and evidence-based housing needs assessments.

Empty homes and community-led housing

22. The Commission recommends that a new empty homes fund be established for social landlords and community organisations, similar to the previous Empty Homes Programmes. The tightening up of the legal definitions and provisions as to what constitutes an empty home for enforcement purposes is also needed.
23. The Commission recommends that central and local government continue to support community-led housing (in part through a new renewed community housing fund). The government should help remove barriers to scaling up community-led housing, including exemption from leasehold enfranchisement.

Housing conditions: private rented housing

24. The Commission recommends that the government examines the case for a national mandatory professional standard of competency in the PRS. Private landlords would have to demonstrate their credibility and a professional standard of management on a similar basis to the regulation of letting agents. The Commission also recommends that a new national landlord register (run by councils but freely open to the public) be established to improve standards within the PRS.
25. The government should consider offering targeted tax relief to private landlords who sell to their tenants, with incentives to sell occupied properties with sitting tenants if they are not in a position to buy but wish to stay. If landlords evict their tenants to sell or move back in, they should pay the tenants' relocation costs, to minimise hardship.
26. The Commission recommends that the government undertakes a review of

measures to improve both affordability and quality in the PRS. This could include improving the information, inspection and redress systems as well as examining the case for tax incentives to bring properties up to the decent homes standard without involving a rise in rents to unaffordable levels.

Housing conditions: social housing

27. The Commission believes that everyone should live in a safe, decent home and urges the strongest possible action from government to tackle the multiple failures that caused the Grenfell Tower tragedy.

28. The Commission welcomes the government's plans to review the Decent Homes Standard. A Decent Homes 2 fund should be established to help bring all social homes up to a Decent Homes Standard by 2025. This could include eco-standards necessary to help meet the UK's climate change targets and reduce fuel poverty.

Housing and welfare

29. The Commission recommends accelerating reforms to universal credit to reduce the delay in the initial payment from five weeks to under two; for payments to be made on a weekly basis; and for the housing benefit element of universal credit to be paid directly to landlords by default, with an option for tenants to receive the payment themselves if they so wish.

30. The Commission recommends the government outlaw discrimination by landlords and letting agents against a tenant or prospective tenant because of their entitlement to benefit and disallow the advertisement of vacant properties in a manner that could be described as discrimination.

31. The Commission welcomes the government's plans for a national strategy for disabled people. The strategy must include greater support for home improvements/adaptations.

Affordability in rural areas

32. For rural areas, the Commission recommends that the government offers greater support to innovative affordable housing initiatives, including for Community land trusts and small builders. Such support could include regulatory reforms and tax incentives to encourage land owners to assist with housing provision for local people, with housing remaining affordable in perpetuity. And, councils should be permitted to require some affordable housing for local people in rural schemes of less than 10 homes.

Housing for older people

33. The Commission recommends that public and private investment in improving the housing stock of older home owners should be increased and targeted on those who cannot afford to undertake the work themselves.

34. The Commission recommends the government take forward the proposals from the APPG on Housing and Care for Older People, especially concerning greater support for affordable purpose built homes and extra care housing, better advice, incentives to downsize, and improved design standards; and that it consult with councils on setting targets in local plans to provide more and better housing for older people.
35. The government must better prepare for a generation of older struggling renters. Preventative measures are urgently needed, including support for intermediate rental products which revert to social rents for households as they enter retirement and their income drops.
36. The Commission recommends that the government examine ways to support equity release for lower-income home owners, especially for home improvements, and for more shared ownership for older households seeking to downsize.

Mortgage lending

37. The Commission considers it prudent to retain the current stress tests for mortgages and restrain self-certified mortgages and interest-only mortgages. Relaxation at this point would push up prices and negatively affect longer-term affordability.
38. The Commission welcomes the proposed reforms of the Help to Buy Equity Loan scheme and recommends it should include support for those buying homes in the existing market – but should be limited to lower income first-time buyers.
39. The Commission recommends that the government gives the Bank of England's Financial Policy Committee additional powers to limit the use of interest-only buy-to-let mortgages. This would create more of a level playing field between owner occupiers and buy-to-let landlords.

Mortgage protection

40. To prevent hardship and a fall in home ownership during an economic downturn, the Commission recommends restoring support for mortgage interest (SMI) as a benefit not a loan, reducing the waiting period, introducing regional caps, and linking payments to actual costs.
41. The Commission suggests the government builds on the lessons from the previous mortgage rescue schemes with the intention to establish a new form of mortgage support as a measure of last resort.
42. To help "mortgage prisoners" who cannot move home or re-mortgage at a lower interest rate, the Commission recommends the FCA allow a less stringent stress test for these exceptional cases.

Housing delivery

43. The Commission recommends that the preparation of local plans be made an enforceable statutory duty to ensure that all councils are delivering on their housing plans and targets. Local and city-region plans must be based on accurate housing needs assessment – including numbers of concealed households – which should be updated regularly.

44. The Commission welcomes the government's forthcoming review of the New Homes Bonus. Any new scheme should provide greater certainty and focus on rewarding councils for providing additional social rented housing.

45. The Commission welcomes the government's commitment to publish a devolution white paper. There is a need to "level up" the housing powers and resources and ensure that the funding and flexibility is in place to meet the metro mayors' housing targets.

46. The Commission calls on the government to take more concerted action to address the worsening skills crisis in construction and to consider new incentives to support modern methods of construction, especially for modular social housing.

47. The Commission welcomes the government's commitment to build new communities. Government should play a leading role in supporting local authorities to ensure that the new settlements are of the scale and quality required to increase supply and ease affordability pressures. This should include supporting the costs of infrastructure, through not only land value capture but also innovative funding models such as tax increment financing.

Other recommendations

48. The Commission endorses the imperative to reduce carbon emissions in homes and across the building industry. But the government must do more and should take forward the key actions suggested by the independent Committee on Climate Change.

49. The Commission calls for the government to undertake a review of overseas property investment and the impact of online holiday lettings such as Airbnb, paying particular regarding to the impacts on affordability.

50. The Commission recommends that government's forthcoming planning white paper includes an extensive public consultation on greenbelt reform, including consideration of housing affordability.

51. The Commission recognises that property taxes can play an important part in housing affordability and believes the time has come for a comprehensive review of council tax.

52. The Commission calls on the government to consider supporting a national voice for tenants and recognition of renter unions, including legal provision for collective bargaining, the right to rent strike and laws against victimisation of renters involved in union organising.

53. The Commission believes that employers could do much more to help tackle the affordable housing crisis. We agree with the proposal from the Centre for Social Justice that government should establish a dedicated employer housing unit to support and promote affordable workforce housing schemes.

Appendices

Appendix 1: Technical details about measuring affordability

The following are the main technical issues concerning the Commission's alternative definitions and measures of affordability. More information is provided in the AHC's discussion paper *Measuring Affordability – an Alternative Approach* (March 2019).

- The average earnings to average price ratio is often used as a way of measuring affordability. However, it is not a particularly good guide to the housing costs people face. Even if adjusted for interest rates, it misses affordability issues faced by those not at the median price point.
- The rent-to-income ratio provides a more detailed picture of how different people through the income distribution are likely to be affected by affordability issues. However, it has been criticised for not accounting for household circumstances.
- The residual income measure subtracts rent from income to assess whether what is left (the residual income) is enough for someone to live on. However, it is difficult to disentangle housing stress from broader financial stress, or account for the interaction between housing costs and housing support (housing benefit) – even where housing benefit covers all the rent, a household could be defined as not having enough to live on.
- An alternative measure is proposed, drawing on both the rent-to-income ratio and the residual income method.
- The rent-to-income ratio is used, but to account for different household circumstances the income is equivalised for household size (similarly to poverty measures), for disability and by region.
- It also accounts for housing benefit by subtracting payments from the rent rather than adding it to income, which could result in a household facing a high income-to-rent ratio even if their rent is fully paid by the state.
- Using this measure the paper shows that those paying over a third of their income on rent are more likely to face some form of housing stress. It demonstrates increased risk of other forms of financial stress and social exclusion.
- A third rent-to-income measure aligns with the AHC's focus group study of lower-income renters.
- Through the analysis of the different measures, the paper also highlights certain risks which cannot be factored into an affordability measure – such as unemployment and other financial shocks – but which should be considered separately.

- The measure also fails to capture those for whom paying even a small proportion of their income on rent, because they are out of work, makes their housing unaffordable.
- A complementary measure is also proposed: that those in poverty (income below two-thirds of median household income) are deemed to be in unaffordable housing if their housing benefit does not cover all their rent.
- A measure is also included for older renters, which is especially important as in the future we may see more private renters entering retirement for whom income drops but rents remain relatively high.
- The rent-to-income ratio to measure affordability for renters is applied to the affordability of mortgage repayments for potential first-time buyers. This is then used to see in which house price decile within their region renters might be able to purchase their first home.
- The cost of making the initial purchase (stamp duty and deposit) is often highlighted as a barrier to entry. The paper therefore explores the time required to save for a deposit, with the findings highlighting a cohort of people for whom this could be a particular issue.
- The measure of affordability includes those in overcrowded housing and living in non-decent housing.

Affordable housing: NPPF definition

Affordable housing: housing for sale or rent, for those whose needs are not met by the market (including housing that provides a subsidised route to home ownership and/or is for essential local workers); and which complies with one or more of the following definitions:

a) Affordable housing for rent: meets all of the following conditions: (a) the rent is set in accordance with the government's rent policy for social or Affordable Rent, or is at least 20% below local market rents (including service charges where applicable); (b) the landlord is a registered provider, except where it is included as part of a build-to-rent scheme (in which case the landlord need not be a registered provider); and (c) it includes provisions to remain at an affordable price for future eligible households, or for the subsidy to be recycled for alternative affordable housing provision. For build-to-rent schemes, affordable housing for rent is expected to be the normal form of affordable housing provision (and, in this context, is known as affordable private rent).

b) Starter homes: as specified in Sections 2 and 3 of the Housing & Planning Act 2016 and any secondary legislation made under these sections. The definition of a starter home should reflect the meaning set out in statute and any such secondary legislation at the time of plan preparation or decision making. Where secondary legislation has the effect of limiting a household's eligibility to purchase a starter home to those with a particular maximum level of household income, those restrictions should be used.

c) Discounted market sales housing: that sold at a discount of at least 20% below local market value. Eligibility is determined with regard to local incomes and local house prices. Provisions should be in place to ensure housing remains at a discount for future eligible households.

d) Other affordable routes to home ownership: housing provided for sale that provides a route to ownership for those who could not achieve home ownership through the market. This category includes shared ownership, relevant equity loans, other low-cost homes for sale (at a price equivalent to at least 20% below local market value) and rent-to-buy (which includes a period of intermediate rent). Where public grant funding is provided, there should be provisions for the homes to remain at an affordable price for future eligible households, or for any receipts to be recycled for alternative affordable housing provision, or refunded to government or the relevant authority specified in the funding agreement.

National Planning Policy Framework, July 2018, MHCLG

Appendix 2: Buying existing properties – assumptions

To understand the cost and benefits of social landlords buying homes the Commission undertook an impact assessment, using HMT *Green Book* assumptions about appraisals of VFM.[1] This focused on London where the gap between private and social rents is widest.

Using this approach, it is possible to model the likely value for money of buying a single property. There are, for example, expected housing benefit savings if a household is paying social rents rather than private rents. In London the difference in housing benefit totals £4,050 a year.[2] A social rent would also be charged, which is estimated to be at £125 a week or £6,800 a year.[3] Buying the home is based on lower-quartile house price in London is £350,000 (a lower price could be chosen but would likely require additional investment to take the home up to a decent standard).[4] There would also be management, maintenance and major repair costs. These are estimated at £4,200 a year, which is higher than the social housing average but reflects the higher costs associated with operating in London.[5]

There is also a need to factor in lost stamp duty when the state, rather than a private buyer, purchases.. For a property worth £350,000 this would be £7,500 (assuming the buyer were not a landlord). The legal, surveyor and administrative costs of the landlord finding and buying the property are estimated at £5,000. As it is modelled on a single property, the inflationary impact on house prices would be negligible but would need to be considered if there were a considerable increase in demand.

Social rents are assumed to rise at CPI+1% a year, which on current forecasts represents a 3% rise.[6] For maintenance costs, inflation is set at RPI levels – 3%. It is assumed that rents and house prices will both rise at 4% and that local housing allowance rates would increase at the same pace.[7]

The impact assessment on the basis of the above results in a negative net position, suggesting that such an approach would not represent value for money. This is also based on the assumption that the home would be occupied by someone claiming housing benefit in all years.

Present value of buying private housing for social rent in London

	Present value (30 years)
Cost of initial purchase	-350,000
HB savings	159,000
Rental income	191,000
Maintenance, management and major works	-118,000
Lost stamp duty	-7,500
Administrative costs of purchase	-2,500
Net position	-128,000

One option would be to look to sell the property at the end of the period, when social house building would have ratcheted up. On this basis, the net value of the property would be around £400,000. This does not adjust for risk nor, if the scheme were ratcheted up, the inflationary impact of buying properties and the deflationary impact of exiting the market at the same time.

Such a buy-back programme would also require much higher levels of housing subsidy than needed to build new homes. Estimates suggest social housing grant needs to be around £72,600 per unit.[8] Buying properties would require far more investment.

The situation is more positive for such interventions either in lower-demand areas or buying homes for temporary accommodation in high-demand areas, such as London.

For assessment for buying homes in London, the following assumptions were made:

- Prices are at lower-quartile values (ONS).

- The HB savings are based on the difference between average private rents (VOA) and social rents (*Statistical Data Return*).
- Maintenance costs are taken from Vantage *Social Housing Financial State of the Sector 2016/17* (2017)
- The state is expected to lose stamp duty receipt for the property.
- Temporary accommodation rental income is based on Rugg, J *Temporary Accommodation in London: Local Authorities under Pressure* (2016) and uprated for inflation.
- The cost of managing temporary accommodation is expected to be greater and based on management and maintenance costs of social housing plus £40 a week housing management element of LHA for TA.

The calculations for buying homes in low-demand areas are based on:

- PRS homes with rents of under £80 a week and requiring more than £2,500 worth of investment to bring to the Decent Homes Standard (English Housing Survey). Average costs of Decent Homes investment is £15,000 (English Housing Survey).
- It is assumed that with a rental yield of 10% common in low-demand areas, the value of the property would be worth £30,000. The value of the property would be expected to rise by 15% as a result of investment, taking rents to a level in line with social rents. As a result of higher rents, it is assumed that housing benefit will have to increase, affecting 70% of tenants.
- Rental revenue reflects this higher rent level. Maintenance costs are assumed to be £2,500 per property, which is slightly lower than that mentioned earlier in the report, as it reflects that homes would have upfront capital investment.
- The economic benefits are based on 30 jobs being created for £1 million investment in the repairs and maintenance sector (HCA *Calculating Cost Per Job*). The GVA reflects average construction costs with a multiplier of 2 (based on HM Treasury *Budget 2010*) and with a third of jobs being additional rather than displacement. Similar methods to those in the analysis of building new social housing for jobseeker's allowance and economic benefits of these additional jobs based on lower wages in poorer regions (see below).
- The distributional benefit is calculated as noted before and based on the household receiving 15% additional benefit in housing services.

Appendix 3: Assumptions for investing in new social housing

The following assumptions were used to understand the value of investing in new social housing:

- Housing benefit spending: the proportion of social renters claiming HB from CORE dataset; HB rates as proportion of social rents from FRS; PRS assumed rates of HB claimants taken from CORE and FRS analysis; and PRS HB rates as proportion of rents from FRS.
- Number of jobs created: assumes an additional social housing unit overall adds 0.5 home to the total housing stock from Bramley, G & Leishman, C 'Planning and Housing Supply in Two-speed Britain: Modelling Local Market Outcomes' *Urban Studies*, 2005; assumes £1 million investment created 20 jobs in 2015, uprated for inflation from HCA report *Calculating Cost Per Job*; assumes build cost of £130,000; assumes multiplier of 1.59; and additional jobs are a third of gross jobs from MHCLG *Affordable Rent Impact Assessment* (2012).
- Tax and NIC: based on regionally weighted median annual pay of a construction job (ASHE). Tax calculated accordingly and multiplied by the number of net jobs created.
- Council tax: based on regional council tax figures from MHCLG, Average Band D council tax by region; assumes social rented homes council tax reduced by £350 based on MHCLG *Affordable Rent Impact Assessment* (2012) and uprated for CT inflation, and reduced further based on figures from Institute for Fiscal Studies *The Impacts of Localised Council Tax Support Schemes* (2019).
- Increasing housing supply: high land values are used to assume the economic benefits of development and are based on Affordable Rent impact assessment and uprated in line with land value data.
- Distributional benefits: based on FRS data on median household income and social housing household income, calculated as the monetary benefit of a household of a household living in social housing compared with the PRS and using the same assumptions regarding HB as above. Figures are weighted by region in line with build programme focus. These figures are applied to get a distributional weight using the methodology set out in HMT *Green Book*.
- GVA of construction: calculated using regional GVA per region figures for construction industry (ONS) and applied to the net number of jobs created.
- Grant funding: based on Bramley, G *Housing Supply Requirements Across Great Britain for Low-income Households and Homeless People: Main Technical Report* (2019).
- Inflation: GDP deflator of 2.7%; CPI rate of 3% and RPI of 4% taken from *Green Book*; market rents assumed to rise at 4% (RPI+1%) from OBR *Housing Market Forecast*; social rents at 3% (CPI+1%) in line with current rent settlement.

Appendix 4: Rents and local income affordability

The Commission examined what social rent levels might be affordable in practice. The following shows how this level could be calculated. As the text describes, the challenge is for those not reliant on housing benefit to meet their housing costs.

Household size and form affects the number of bedrooms required. Assuming affordability should be based upon clearing the housing benefit threshold, the typical household formation for those not claiming housing benefit can be used as the benchmark.

Household size for working-age social tenants by bedroom number

	All households		Households not in receipt of HB	
Number of bedrooms	Average number people in household	Average number of dependent children	Average number people in household	Average number of dependent children
1	1	0	1	0
2	2	1	3	1
3	3	1	3	1
4	5	2	4	1
5+	6	2	7	2

Source: AHC analysis of the English Housing Survey, 2016/17

While the minimum wage is set nationally, local wages differ by hourly rates and number of hours worked. To reflect the different local earnings and ability of social housing tenants to meet their rent, local earnings rather than minimum wage rates are used. Using weekly wages also factors in not just hourly pay but also the ability of workers to find work. As such, weekly wage rates for the bottom 10th percentile of all workers is used as an indication of local wages.

This data can then be applied to the household formation of those not in receipt of housing benefit. Analysis shows that the head of household or partner of those in social housing and not claiming housing benefit are overwhelmingly in work. Indeed, for those not claiming housing benefit with a partner, the majority are both in work.[9] Equally, when examining non-dependent children within social housing, the majority are also in work.[10]

It is therefore assumed that to clear the housing benefit threshold all adults within non-housing benefit households are in work. The income levels are then based on 10th percentile earnings and adjusted for non-housing benefit welfare payments, less any income tax and national insurance contributions. The equivalised income is then divided by a third to give the upper limit of affordability. To ensure flexibility, a lower level is set at a quarter of incomes.

As the table on household form indicates, those in two- and three-bed properties have a similar make-up. This would mean that a two- and three-bedroom property would be priced at the same rent. This clearly runs contrary to any notion of what might be a fair rent. Therefore, the lower bounds could be used for a two-bed property and the three-bed priced towards the top end of the affordability threshold.

Local income affodability

	Lower bound (£)	Potential target (£)	Upper bound (£)	Actual (£)	AHC income (255 = 60% median income AHC)[11] (£)
London					
1 bed	77	90	103	106	186
2 bed	91	105	121	120	271
3 bed	91	115	121	133	266
4 bed	100	125	128	149	310
North East					
1 bed	71	70	95	69	179
2 bed	83	80	111	77	266
3 bed	83	90	111	85	258
4 bed	90	100	115	93	290
West Midlands					
1 bed	72	75	96	76	177
2 bed	85	85	113	87	268
3 bed	85	95	113	97	260
4 bed	92	105	118	111	294
South East					
1 bed	74	85	99	90	162
2 bed	87	100	116	106	264
3 bed	87	110	116	119	255
4 bed	91	120	121	133	296
South West					
1 bed	70	80	93	78	159
2 bed	82	90	109	90	252
3 bed	82	100	109	101	244
4 bed	85	110	113	115	276

Source: Based on data from Annual Survey of Hours & Earnings, 2018 and income after tax and transfers and Homes England, Statistical Data Release

The data suggests that those in one-bedroom properties on the 10th percentile of earnings are likely to need housing benefit. Data from the English Housing Survey suggests that households in one-bed properties tend to have a single full-time worker, while 10th percentile earnings capture part-time earnings. A household working 30 hours at 10th percentile hourly regional earnings would clear the housing benefit threshold, and after housing cost, income would be above the poverty threshold.

Local income affordability for one-bedroom household earning 10th percentile of wages

	Hourly wage (£)	AHC income (250 = 60% median income AHC) (£)
London	9.84	266
North East	8.65	261
West Midlands	8.66	254
South East	9.21	255
South West	8.86	251

Source: Based on data from Annual Survey of Hours & Earnings, 2018 and income after tax and transfers assuming target rent outlined in the previous table.

It may be sensible to apply such an approach to local rather than regional areas. In some areas, for example, where there are more higher earners, the 10th percentile might be higher than a neighbouring area. For example, Tower Hamlets has higher earners than Newham, probably because Tower Hamlets includes Canary Wharf. It is therefore suggested that either a wider travel-to-work area is used for wage rates, perhaps one which is smaller than conventional travel-to-work areas (because low-paid workers are less likely to travel long distances); or earnings could be based on a low-paid sector, which would resolve issues with the composition of the workforce. Data by location and occupation is however less comprehensive.

The issue of affordability is not simply about average rent levels, but also variation in levels. For example, the variance (standard deviation) for two-bed rents in the South East is £23. Data from Regulator of Social Housing's Statistical Data Return also highlights the range of rents. In Birmingham, average rents by housing provider indicate that for a two-bed general-needs property, rents range from £85 per week to £108.[12]

Appendix 5: Impact assessment of RTB

The table below reproduces an impact assessment of changing discount rates for right to buy.

Net present value of policy option 2 (maintain existing discount ranges with £75,000 cash cap), England

	30 years	60 years
Benefits		
sale receipt maintaining existing discount ranges and with a £75,000 cash cap	72,500	72,500
maintenance cost savings	24,800	36,500
major repair cost savings	18,800	27,700
management cost savings	15,900	23,400
debt servicing interest savings	7,400	10,200
Benefits subtotal	139,300	170,200
Costs		
loss of rental stream	-95,000	-144,100
extra housing benefit costs	-6,000	-20,000
deadweight impairment vs current policy	-18,500	-6,900
Costs subtotal	-119,500	-171,000
Net position	**19,800**	**-700**

Source: DCLG Reinvigorating Right to Buy and One for One Replacement Impact Assessment (2012 – assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/8423/2102753.pdf)

The analysis did not have a comparative assessment of not offering a discount. Using the same numbers as presented, we can see that retaining the property would offer much better value for money. This is probably an optimistic assessment of the net position under RTB. As a note in the impact assessment states, the residual value of the property, which is not included in the assessment, would have worsened the net position. Furthermore, there was no assessment of the distributional impacts of selling homes to the private sector, which is likely to support the case against selling off social housing.

Net present value of retaining a council housing property

	30 years	60 years
Costs		
maintenance cost savings	-24,800	-36,500
major repair cost savings	-18,800	-27,700
management cost savings	-15,900	-23,400
debt servicing interest savings	-7,400	-10,200
Costs subtotal	-66,900	-97,800
Benefits		
loss of rental stream	95,000	144,100
extra housing benefit costs	6,000	20,000
Benefits subtotal	101,000	164,100
Net position	**34,100**	**66,300**

Source: AHC analysis of DCLG data

The Commission examined the impact of reducing discount rates in line with the average low-cost home ownership grant rates. The figures were updated for current house prices with more recent data. The results suggest that the policy would offer better value for money than existing policy. After 60 years, the position is worse than ending RTB, but the position is still positive and could free up investment for new social housing.

Net present value of capped discount of RTB sales

	30 years	60 years
Benefits		
sale receipt limited to £22,000 cash cap	100,000	100,000
maintenance cost savings	24,800	36,500
major repair cost savings	18,800	27,700
management cost savings	15,900	23,400
debt servicing interest savings	7,400	10,200
Benefits subtotal	166,900	197,800
Costs		
loss of rental stream	-95,000	-144,100
extra housing benefit costs	-6,000	-20,000
deadweight impairment vs current policy	0	0
Costs subtotal	-101,000	-164,100
Net position	**65,900**	**33,700**

Endnotes

Part One: Why is housing unaffordable?

1. See the Shelter/Capital Economics analysis in *Building for Our Future: A Vision for Social Housing* (2019), which suggests that the economic benefits of social house building would ultimately outweigh the initial costs. The programme would require an average yearly investment of £10.7 billion, but up to two-thirds could be recouped through housing benefit savings and increased tax revenue each year.
2. ONS *National Population Projections: 2018-based* (2019)
3. Bramley, G *Housing Supply Requirements Across Great Britain for Low-income Households and Homeless People: Main Technical Report* (Herriot-Watt, 2019) and BBC Housing Briefing (2020)
4. Edwards, M *Prospects for Land, Rent and Housing in UK Cities* (Government Office for Science, 2015)
5. See Ipsos Mori survey for CIH, *National and Local Housing Crisis 2019*
6. Ipsos Mori for CIH, *Public: Give Housing More Attention* (2019)
7. Bramley, G *Housing Supply Requirements Across Great Britain: For Low-income Households and Homeless People* (National Housing Federation & Crisis, 2018); Holmans, A *New Estimates of Housing Demand and Need in England, 2011 to 2031* (TCPA, 2013)
8. MHCLG *English Housing Survey 2017 to 2018: Headline Report* (2019)
9. MHCLG Live Table 104
10. Holmans, A *New Estimates of Housing Demand and Need in England, 2011 to 2031* (TCPA, 2013); Savills *Investing to Solve the Housing Crisis* (2017); Bramley, G *Housing Supply Requirements Across Great Britain: For Low-income Households and Homeless People* (National Housing Federation & Crisis, 2018)
11. MHCLG Live Table 678
12. See House of Commons Library *Right to Buy: Are Replacements on Track?* (2017)
13. See CIH *2019 UK Housing Review*
14. MHCLG Live Table 1000
15. Stephens, M et al *2019 UK Housing Review* (CIH/Herriot Watt University, 2019)
16. Shelter *Building for Our Future: A Vision for Social Housing* (2019)
17. Shelter uses data/analysis from Capital Economics, Homes England and the UK Housing Review (2018).
18. See Smith Institute *Social Hearted, Commercially Minded: A Report on Tomorrow's Housing Associations* (2013) and Hickman, P et al *The Impact of Welfare and Tenancy Reforms on Housing Associations* (CaCHE, 2018)
19. Bowie, D *Radical Solutions to the Housing Crisis* (Policy Press, 2017)
20. Clarke, S, Collett, A, & Judge, L *The Housing Headwind* (Resolution Foundation, 2016
21. Rugg, J and Rhodes, D *The Evolving Private Rented Sector: Its Contribution and Potential* (University of York, 2018)
22. According to the EHS, households with dependent children account for 22% of all households in the PRS; over 65s account for 9%
23. As documented by *The Lyons Housing Review* (2014)
24. Barker, K *Review of Housing Supply: Delivering Stability: Securing Our Future Housing Needs* (2004)
25. Hilber, C and Vermeulen, W *The Impacts of Restricting Housing Supply on House Prices and Affordability* (DCLG, 2010)
26. Meen, G *A Long-run Model of Housing Affordability* (DCLG, 2011)
27. Bramley, G & Watkins, D *Housebuilding, Demographic Change and Affordability as Outcomes of Local Planning Decisions: Exploring Interactions Using a Sub-regional Model of Housing Markets in England* (Progress in Planning, 2016) and Miles, D & Monro, V *UK House Prices and Three Decades of Decline in the Risk-free Real Interest Rate* (Bank of England, 2019)
28. Mulheirn, I *Tackling the UK Housing Crisis: Is Supply the Answer?* (CaCHE, 2019)

29. Using benefit units – those deemed to be separate households within a home, such as families living with other families – suggests the undersupply of housing.
30. National Housing Federation *State of the Nation* (2019)
31. Bentley, D & McCallum, A *Rise and Fall: The Shift in Household Growth Rates Since the 1990s* (2019)
32. London Assembly Housing Committee *Hidden Homelessness in London* (2017)
33. Fitzpatrick, S et al *The Homelessness Monitor: England 2019* (Crisis, 2019)
34. Judge, L *The One Million Missing Homes?* (Resolution Foundation, 1999)
35. Miles, D & Monro, V *UK House Prices and Three Decades of Decline in the Risk-free Real Interest Rate* (Bank of England, 2019)
36. MHCLG *English Housing Survey Headline Report* (2019) and Kuvshinov, D *Recent Trends in the UK First-time Buyer Mortgage Market* (Bank for International Settlements, 2011)
37. Meen, G *Policy Approaches for Improving Affordability* (CaCHE, 2018)
38. According to ONS data, in 1991, 67% of the 25-34 age group were home owners. By 2011/12, this had declined to 43%.
39. Taylor, R *Buy-to-let Mortgage Lending and the Impact on UK House Prices: A Technical Report* (National Housing & Planning Advice Unit, 2008)
40. Chadha, J *Commentary: The Housing Market and the Macroeconomy* (NIESR, 2018)
41. According to research, a third of the PRS stock in the UK has outstanding mortgages. See Rugg, J & Rhodes D *The Evolving Private Rented Sector: Its Contribution and Potential* (University of York, 2018)
42. Owner-occupiers of course cannot oust other potential owner-occupiers; only people buying second, third, fourth homes etc can price other households out of the market altogether.
43. Ryan-Collins, J *Why Can't You Afford a Home* (UCL, 2018)
44. Mirrlees, J et al *Tax by Design* (IFS, 2011)
45. Fitzpatrick, S *The Homelessness Monitor: England 2019 (Crisis, 2019); NAO, Homelessness* (2017)
46. CIH *Missing the Target? Is Targeted Affordability Funding Doing Its Job?* (2018)
47. Smith Institute *Safe as Houses: The Impact of Universal Credit on Tenants and Their Rent Payment Behaviour in the London Boroughs of Southwark and Croydon, and Peabody* (2017)
48. Hickman, P et al *The Impact of Welfare Reforms on Housing Associations* (CaCHE, 2018)

PART TWO: Costs and consequences

1. See House of Commons Library: *Poverty in the UK: Statistics* (2019) and research from CaCHE, the National Housing Federation, and JRF, which shows that a far greater proportion of poor households are now living in the PRS.
2. The Localism Act 2011 gave councils the freedom to manage their own waiting lists so that they can decide who should qualify – the numbers on waiting lists fell as a consequence.
3. The poverty line is defined as household income below 60% of median income.
4. See Torgerson, W *Housing: The Wobbly Pillar under the Welfare State*.
5. Estimated to rise to over 5 million by 2022 by the IFS (*Living Standards, Poverty and Inequality in the UK: 2017–18 to 2021–22*)
6. A survey carried out by YouGov and Shelter in 2016 showed that 3.7 million UK families were under pressure to save money on essentials such as food to be able to stay in their homes. Shelter, "44% of Working Families Cut Back on Essential Food and Clothing to Pay for their Home, New Figures from Shelter Show", 14 September 2016
7. 830,000 non-decent homes are now occupied by people in the bottom half of the income distribution. Analysis based on analysis for the AHC of Ministry of Housing, Communities and Local Government. (2018). *English Housing Survey, 2016: Housing Stock Data*. UK Data Service. SN: 8350, http://doi.org/10.5255/UKDA-SN-8350-1
8. Nicol, S et al *The Cost of Poor Housing to the NHS* (BRE)
9. BEIS *Annual Fuel Poverty Statistics Reports*
10. 83% of the existing housing stock was built prior to 1991 – long before the introduction of standards for insulation and energy performance. From MHCLG, *English Housing Survey 2018 to 2019: Headline Rreport* (2020)

11. See Papworth Trust *Facts and Figures: Disability in the UK* (2018)
12. Research by the Housing Made for Everyone coalition also showed that less than half of local housebuilding plans in England included provision for accessible homes and very few were wheelchair accessible.
13. Crisis, *Everybody In: How to End Homelessness in Great Britain* (2018)
14. An estimation of the costs of homelessness in 2015 by Nicholas Pleace, Centre for Housing Policy, University of York, showed that preventing homelessness cost the public sector an additional £1,558 per person, while allowing it to persist for 12 months cost £11,733 per person. Pleace, N *At What Cost? An Estimation of the Financial Costs of Single Homelessness in the UK* (Crisis, 2015)
15. Fitzpatrick, S et al *The Homelessness Monitor: England 2019* (Crisis, 2019)
16. ONS *UK Homelessness: 2005 to 2018*
17. MHCLG Statutory homelessness live tables
18. MHCLG Statutory homelessness live tables
19. Overcrowding is based on the bedroom standard. A household is said to be overcrowded if the actual number of bedrooms is below the notional number required. The English Housing Survey states that: "A separate bedroom is allowed for each married or cohabiting couple, any other person aged 21 or over, each pair of adolescents aged 10-20 of the same sex, and each pair of children under 10. Any unpaired person aged 10-20 is notionally paired, if possible, with a child under 10 of the same sex, or, if that is not possible, he or she is counted as requiring a separate bedroom, as is any unpaired child under 10."
20. MHCLG *English Housing Survey 2018 to 2019: Headline Report*
21. National Housing Federation *Overcrowding in England* (2019)
22. MHCLG, Statutory homelessness live tables
23. See House of Commons Library *Households in Temporary Accommodation – England* (2019)
24. WPI Economics *Local Authority Spending on Homelessness: Understanding Recent Trends and Their Impact* (St Mungo's & Homeless Link, 2019)
25. Based on data from Rugg, J *Temporary Accommodation in London: Local Authorities Under Pressure* (York University, 2016)
26. House of Commons Committee of Public Accounts *Homeless Households: Eleventh Report of Session 2017–19* (2017)
27. See Crisis *Homelessness Monitor* reports.
28. Hickman, P, Pattison, B & Preece, J *The Impact of Welfare Reforms on Housing Associations* (University of Glasgow, 2018)
29. Dorling, D *All That Is Solid: How the Great Housing Disaster Defines Our Times, and What We Can Do About It* (2014)
30. "The Horrible Housing Blunder" in *The Economist* January 2020
31. Meen, G *Policy Approaches for Improving Affordability* (CaCHE, 2018)
32. See Morrison, N & Monk, S "Job-Housing Mismatch: Affordability Crisis in Surrey, South East England" in *Environment & Planning A: Economy and Space* (Vol 38, Issue 6, 2006)
33. See *Report of the Commission for Housing in the North* (2016)
34. CEBR *The Housing Crisis: The Impact Revealed* (2015)
35. Shelter *Housing Investment: The Role of House Building in Local Economic Growth* (2012)
36. The construction sector plays an important role in the economy, adding around 2-2.5% of total UK gross value added – see Homes England *The Role of Housing in the Economy* (HCA, 2010).
37. LEK C*onsulting Construction in the UK Economy: The Benefits of Investment* (The UK Contractors Group, 2009)
38. Buying and selling existing homes has much less impact on GDP and productivity. See Bank of England *Understanding and Measuring Finance for Productive Investment* (2016)
39. Committee on Climate Change *UK Housing: Fit for the Future?* (2019)
40. National Grid *Future Energy Scenarios* (2019)
41. AHC analysis based on Ministry of Housing, Communities and Local Government. (2018). *English Housing Survey, 2016: Housing Stock Data.* UK Data Service. SN: 8350, http://doi.org/10.5255/UKDA-SN-8350-1
42. See research by the Committee on Climate Change *UK Housing: Fit for the Future?* (2019)
43. HM Land Registry *UK House Price Index*
44. Hudson, N *A Housing Crisis? More Like a Series of Local Crises Needing Local Solutions* (Residential Analysis, 2018)

45. See Northern Housing Consortium *A New Framework for Housing in the North: Report of the Commission for Housing in the North (2016)*
46. ONS *Housing Affordability in England and Wales 2018* (2019)
47. Nationwide *House Prices and Affordability Through the Decades* (2020)
48. Zoopla *How Affordable are Rents in Great Britain?* (2019)

PART THREE: Defining affordability – who's affected?

1. This section of the report summarises the findings and recommendations in the Commission's interim report *Defining and Measuring Affordability: An Alternative Approach* (2019).
2. Meen, G *How Should Housing Affordability Be Measured?* (CaCHE, 2018); Bramley, G "Affordability, Poverty and Housing Need: Triangulating Measures and Standards" in *Journal of Housing and the Built Environment* (Vol 27, Issue 2, 2012)
3. 60% of equivalised median net income after housing costs

PART FOUR: Rebalancing the housing system

1. IFS report *The Decline of Homeownership Among Young Adults* (2018) documents the gap between prices and incomes: mean house prices were 152% higher in 2015/16 than in 1995/96 after adjusting for inflation. By contrast, the real net family incomes of those aged 25–34 grew by only 22% over the same 20 years.
2. Marsh, A & Gibb, K *The Private Rented Sector in the UK: An Overview of the Policy and Regulatory Landscape* (CaCHE, 2019)
3. StepChange Debt Charity evidence
4. RICS UK *Residential Market Survey* (February 2017)
5. See Unison *Priced Out: Home Ownership and Public Service Workers (2018) and Nothing Going On But the Rent: The Housing Cost for Public Service Workers in England* (2018)
6. DWP forecasts for 2019/20 show housing benefit payments to housing association tenants at £8 billion (double the total in 2000) and council tenants at £5.5 billion (down from £7.5 billion in 2000). DWP, *Outturn and Forecast: Spring Statement 2019*
7. DWP *Impact of Rent Growth on Housing Benefit Expenditure* (2013)
8. Johnson, P "Doubling of the Housing Benefit Bill Is Sign of Something Deeply Wrong" in *The Times* (4 March 2019)
9. Taylor, R *Buy-to-let Mortgage Lending and the Impact on UK House Prices: A Technical Report* (NHPAU, 2008)
10. Bank of England *Understanding and Measuring Finance for Productive Investment* (2016)
11. For details about PRS landlords see Rugg, J & Rhodes, D *The Evolving Private Rented Sector: Its Contribution and Potential* (University of York, 2018) and MHCLG *English Private Rented Sector Survey* (2018)
12. Simcock, T & Kaehne, A *State of the PRS (Q1 2019): A Survey of Private Llandlords and the Impact of Welfare Reforms* (RLA/Edge Hill University, 2019)
13. Resolution Foundation *Homes Sweet Homes: The Rise of Multiple Property Ownership in Britain* (2017)
14. MHCLG Live table 104
15. Savills UK *Housing Stock Now Worth £7.39 Trillion* (2020)
16. IFS *The Decline of Homeownership Among Young Adults* (2018) showed that home ownership among 25- to 34-year-olds fell between 1997 and 2017 from 55% to 35%, with sharp reductions for both low- and middle-income groups.
17. Shelter *Building for Our Future: A Vision for Social Housing* (2019)
18. According to research from Precise Mortgages (March 2019), some 64% of landlords with more than four properties and who planned to buy in that year would use limited company status, compared with just 21% intending to buy as individuals.

19. Rugg, J & Rhodes, D *The Evolving Private Rented Sector: Its Contribution and Potential* (University of York, 2018)
20. This ratio is based on equivalised incomes before housing costs and based on IFS *Households Below Average Income Dataset* (1980) and MHCLG, *English Housing Survey 2016/17*. Institute for Fiscal Studies *Households Below Average Income Dataset, 1961-1993*. 2nd Edition. Department of Employment, Central Statistical Office, [original data producer(s)]. Department of Employment. SN: 3300, http://doi.org/10.5255/UKDA-SN-3300-2 and Ministry of Housing, Communities and Local Government. (2019). *English Housing Survey, 2017-2018: Household Data*. [data collection]. UK Data Service. SN: 8495, http://doi.org/10.5255/UKDA-SN-8495-1
21. ARLA Propertymark "Rent Costs Hit Record High – 2019 Trends" (4 December 2019)
22. ARLA Propertymark "Rents in the Private Rented Sector Continue to Rise as Supply Falls (August 2019)
23. Property Reporter, December 2019
24. MHCLG *English Housing Survey 2017/18*
25. This assumes renters buying a property at the 20th percentile in their region to ensure a decent housing standard. This is based on a 7% interest rate, which is above current interest rates but factors in protection against a sudden increase in rates, as current regulations insist. The mortgage term is 25 years. It assumes that households can buy without exceeding a third of income spent on mortgage repayment and the head of household is under 45 years old.
26. This assumes a household is either paying over a third of their income on rent or that housing benefit doesn't cover all their rent and they are in poverty.

PART FIVE: Affordability: a national priority

1. The government set itself a public service agreement (PSA) target of bringing all social housing up to the Decent Homes Standard by 2010. An interim target was also set, aimed at reducing the number of non-decent homes in the social sector by a third by April 2004.
2. Boris Johnson *Queen's Speech* 2019: "My government will take steps to support home ownership, including by making homes available at a discount for local first-time buyers."
3. Smith Institute *Working Together – Thinking Alike: What Do Councils and Local Enterprise Partnerships Expect From Housing Associations?* (2015)
4. See report by ARCH/CIH and the housing association VIVID, *Building Bridges* (2017)
5. JRF *Poverty in Scotland* (2019)
6. Bramley, G *Housing Supply Requirements Across Great Britain: For Low-income Households and Homeless People* (National Housing Federation & Crisis, 2018)
7. It includes, for example, spatial requirements, demographic changes, hidden homelessness and other affordability metrics.
8. MHCLG, *Guidance: Housing and Economic Needs Assessment* (2019) details the standard method for assessing minimum housing need using the 2014-based household projections as a "baseline" (which provides a total close to the government's 300,000 homes a year by the mid 2020s).
9. The current guidance states that "strategic policy making authorities will need to estimate the current number of households and projected number of households who lack their own housing or cannot afford to meet their housing needs in the market".
10. See Preece, J *Understanding Approaches to Tenant Participation in Social Housing* (CaCHE, 2019)
11. National Housing Federation *Together with Tenants – Revised Plan and Next Steps* (2019)
12. Consultation run by Shelter online between March and June 2018. In total 31,236 people took part. This included 7,681 social tenants (25% of all respondents). Respondents were from across the country. Shelter *A Vision for Social Housing: The Final Report of Shelter's Commission on the Future of Social Housing* (2019)
13. Tenant Steering Group letter to government (2019) – quoted in Hilditch, M "Government Criticised for Sidelining Plans for National Tenant Voice" in *Inside Housing*, 16 April 2019
14. As set out in MHCLG's *A New Deal for Social Housing* (2018)

15. Taroe Trust *Ensuring Fairness for Tenants: A Manifesto for Change* (2018)
16. The manifesto is based on joint work between Generation Rent, London Renters Union, ACORN, Tenants Union UK, Renters' Rights London and the New Economics Foundation.

PART SIX: Increasing supply of affordable homes

1. For an example of a critique of the argument that there is not a supply problem see: Bramley, G *Tackling the UK Housing Crisis: Is Supply the Answer? Peer Review Comments (*CaCHE, 2019). Bramley notes that housing distribution is an important factor alongside financial regulation and taxation, but that such arguments fail, among other things, to look at the underlying stock and population, and at concealed households.
2. Net additional dwellings ("net additions") includes new build, conversions, changes of use (for example, a residential house to an office), and demolitions.
3. GLA data shows that in 2018/19, 14,544 affordable homes were started in the capital – including 3,991 social rent level homes and 1,916 council homes.
4. MHCLG Live Tables 100, 118 and 1000
5. Based on current build rates of social rented housing (6,000 a year) from Live Table 1000; demolitions of 4,000 from Live Table 684; 5,000 conversions to Affordable Rent from Regulator of Social Housing *Statistical Data Return*; 15,000 right-to-buy sales from Live Table 678; and acquisitions of 1,000 properties from Live Table 1009: Additional new build and acquired affordable homes provided. Stock numbers of existing social rented properties are based on MHCLG, *Local Authority Housing Statistics* data set *England 2018-19: Section A – Dwelling Stock* and Regulator of Social Housing *Statistical Data Return*. Overall current stock based on *English Housing Survey 2018/19*. New overall supply of housing is based on Table 118 "Annual Net Additional Dwellings and Components, England and the Regions, 2000-01 to 2018-19".
6. Meen, G *A Long-run Model of Housing Affordabilit*y (DCLG, 2011)
7. DCLG *Impact Assessment of Affordable Rent* (2011)
8. According to Ian Mulheirn's Oxford Economics, analysis of MHCLG data, adding 300,000 homes a year for the next 20 years would lower house prices by just 6% in real terms by 2038 – quoted in evidence from the G15.
9. DCLG *Impact Assessment of Affordable Rent* (2011)
10. Hyde Group/Bates Wells Braithwaite *Value of Social Tenancy: A Socio-economic Evaluation Based on Hyde's Housing Portfolio* (2018)
11. The marginal propensity to consume is higher among those on lower incomes – those with less who receive an additional pound are more likely to spend than save compared with those higher up the income distribution.
12. HM Treasury *Green Book* (2018) explains that the marginal utility of an extra £1 is worth twice as much for someone earning £20,000 as someone on £40,000 a year.
13. Bramley, G & Leishman, C "Planning and Housing Supply in Two-speed Britain: Modelling Local Market Outcomes" in *Urban Studies* (Vol 42, Issue 12, 2005)
14. DCLG *Impact Assessment of Affordable Rent* (2011)
15. Ibid
16. Andrews, D et al H*ousing Markets and Structural Policies in OECD Countries* (OECD, 2011)
17. Maclennan, D *Making Better Economic Cases for Housing Policies* (UNSW Sydney, 2018)
18. See IPPR's *Benefit to Bricks: Mobilising Local Leadership to Build Homes and Control the Benefit Bill* (2014)
19. Social housing grant levels to achieve genuinely affordable rents have been estimated to be around £73,000 (per unit) - Capital Economics *Increasing Investment in Social Housing: Analysis of Public Sector Expenditure on Housing in England and Social Housebuilding Scenarios* (2019). However, others have put the figure closer to £84,000, with higher levels needed in London. See Bramley, G *Housing Supply Requirements Across Great Britain for Low-income Households and Homeless People: Technical Report* (Heriot-Watt, 2019).
20. Bramley, G *Housing Supply Requirements Across Great Britain for Low-income Households and Homeless People: Technical Report* (Heriot-Watt, 2019)

21. National Housing Federation *Capital Grant Required to Meet Social Housing Need in England 2021–2031* (2019)
22. Based on CIH *2019 Housing Review*: Table 56 "Territorial Analysis of Identifiable Government Expenditure in the UK" and Table 62a "Housing Capital Investment in England"
23. Capital Economics *Increasing Investment in Social Housing* (2019)
24. For arguments regarding revenue and capital subsidies see: Shelter, *Bricks or Benefits? Rebalancing Housing Investment* (2012)
25. Network Homes *Why Aren't Housing Associations Building More Social Rented Homes?* (2019)
26. Taken from CIH *2019 Housing Review*, Table 62b "Housing Capital Investment in England – Real Terms"
27. CIH *2019 Housing Review*, Table 57b "Gross Publicly Funded Social Housing Investment in Great Britain and the United Kingdom Excluding Private Finance"
28. DWP *Expenditure and Caseload Forecasts* (2019) and CIH *2019 Housing Review*, Table 57b "Gross Publicly Funded Social Housing Investment in Great Britain and the United Kingdom, Excluding Private Finance" and DWP Stat-Xplore
29. Wilcox, S & Williams, P *Dreams and Reality? Government Finance, Taxation and the Private Housing Market* (CIH, 2018)
30. Capital Economics *Increasing Investment in Social Housing: Analysis of Public-Sector Expenditure on Housing in England and Social Housebuilding Scenarios* (2019)
31. Williams, S "GLA and G15: London Needs Seven Times More Grant, and Cross-subsidy Is 'at Breaking Point'" in *Social Housing*, 24 June 2019
32. Regulator of Social Housing *Quarterly Survey for Q2, July to September 2019*
33. Regulator of Social Housing *Sector Risk Profile 2019*
34. MHCLG Live Table 1000C "Additional Affordable Homes Provided by Type of Scheme, Completions, England"
35. Regulator of Social Housing 2*019 Global Accounts of Private Registered Providers*
36. According to the 2019 Global Accounts funds raised from the capital markets were £6.7bn in 2019 compared with £2.6bn in 2017
37. Savills "Shared Ownership Is an Attractive Long-term Investment Proposition, But Investors Face Challenges Building Portfolios at Scale" (2019)
38. AHC evidence
39. See the government's *Future Homes Standard* – by 2025, new-dwelling energy performance will achieve a 75-80% reduction in carbon emissions over that required in 2013.
40. Knight Frank "UK Purpose-built Student Accommodation Market Valued at More Than £50 billion" (18 June 2019)
41. Rhodes, D & Webber, R *Overseas Investors in London's New Build Housing Market* (University of York Centre for Housing Policy, 2017)
42. Savills "London's Overseas Buyers" (14 August 2014)
43. Hamptons International *Market Insight April to May 2019: The Rise of the International Buyer* (2019)
44. Such as the Meridian Waters 10,000-home mixed-tenure scheme, which also includes caps on the number of homes people can buy.
45. Scanlon, K et al *The Role of Overseas Investors in the London New-build Residential Market* (LSE, 2017)
46. Smith Institute, *Britain for Sale: Perspectives on the Costs and Benefits of Foreign Ownership* (2016); Heywood, A *London for sale? An Assessment of the Private Housing Market in London and the Impact of Growing Overseas Investment* (Smith Institute, 2012); Heywood, A and & Hackett, P *The Case for a Property Speculation Tax* (Smith Institute, 2013)
47. It is also argued that overseas investment and pre-sales are critical to ensuring and speeding up a development pipeline.
48. See work Dr Luna Glucksberg presented, "Is This Displacement? Pushing the Boundaries of Super-gentrification in London's Alpha Territory" on 31 August 2016 at the Royal Geographical Society (with IBG) Annual International Conference in London.
49. Scanlon, K et al *The Role of Overseas Investors in the London New-build Residential Market* (LSE, 2017)
50. See House of Commons Library Briefing *Foreign Investment in UK Residential Property* (2017)

PART SEVEN: Land and planning

1. Letwin, O *The Independent Review of Build Out* (MHCLG, 2018) was commissioned by government to examine the gap between housing completions and the amount of land allocated or permissioned, and make recommendations for closing the gap.
2. Savills suggests that around 15% do not have a confirmed five-year land supply.
3. GLA states that in 2018 more than half of referrable schemes included 35% or more affordable homes. Similar "fast-track" affordable housing schemes are being piloted in other cities, such as Sheffield.
4. See Table 3 "Number of Housing Units Granted Planning Permission: Rolling Annual Totals" in *MHCLG Planning Applications in England: July to September 2019*
5. See Letwin, O *The Independent Review of Build Out* (MHCLG, 2018)
6. See NAO, *Planning for New Homes* (2019) which outlines the resource constraints faced by councils, and Planning Futures, *Delivering the Planning Service We Need: Building Planning Department Capacity* (2017) which outlines the impact of cuts on the ability to deliver "efficient and robust" planning service.
7. House of Commons HCLG Committee *Land Value Capture* (2018)
8. TCPA *Planning 2020 Final Report* (2018)
9. London's 30 housing zones are dedicated growth areas involving public and private housing providers. GLA loans are used to buy land, create infrastructure and build new homes, of which around a third will be affordable.
10. See Shelter's monograph *Grounds for Change: The Case for Land Reform in Modern Britain* (2019)
11. Centre for Progressive Policy *Gathering the Windfall: How Changing Land Law can Unlock England's Housing Supply Potential* (2018)
12. Evidence from CPRE
13. Bentley, D *The Land Question: Fixing the Dysfunction at the Root of the Housing Crisis* (Civitas, 2017)
14. Andrew, A et al "The Evolution of Betterment in the United Kingdom" in *Journal of Retail & Leisure Property* (Vol 6, Issue 4, 2007)
15. Bentley, D *The Land Question: Fixing the Dysfunction at the Root of the Housing Crisis* (Civitas, 2017)
16. While CPO powers do not contravene human rights when public interest is pursued, paying only existing use values may do so because of the lack of financial equivalency – see Crook, T *Local Authority Land Acquisition in Germany and the Netherlands: Are There Lessons for Scotland?* (Scottish Land Commission, 2018). Legal experts also claim that the larger the gap between market value and price paid, the more public interest must be justified – see Denyer Green, B *Oral Evidence to HCLG Select Committee Inquiry into Land Value Capture* (2018).
17. Letwin, O *Independent Review of Build Out: Draft Analysis* (MHCLG, 2018)
18. See Letwin, O *Independent Review of Build Out* (MHCLG, 2018).
19. Crook, T "Capturing Development Value Via Compulsory Purchase at Existing Use Value – We Need to Remember Our History" in *Town & Country Planning* (2019)
20. Falk, N *Capital Gains: A Better Land Assembly Model for London* (URBED/GLA, 2018)
21. Crook, T *Local Authority Land Acquisition in Germany and the Netherlands: Are There Lessons for Scotland?* (Scottish Land Commission, 2018); Needham, B "Land Management and Housing Development: The Dutch Practice, Land Use, Land Value and Urban Development", paper presented at NESC Housing Conference in Dublin, 27 February 2018; Lord, A et al *Planning as "Market Maker": How Planning Is Used to Stimulate Development in Germany, France and the Netherlands* (2015)
22. See for example Falk, N *Better Housing for the 21st Century* (The Academy for Urbanism, 2019).
23. JRF *International Review of Land Supply and Planning Systems* (2013)
24. Crook, T *Local Authority Land Acquisition in Germany and the Netherlands: Are There Lessons for Scotland?* (Scottish Land Commission, 2018)
25. See House of Commons Communities & Local Government Select Committee *Inquiry on Land Value Capture* (2018).
26. See the annual report and accounts of listed house builders.

27. Affordable housing is not actually included as such on the schedule of permitted uses of CIL, although CIL funds support affordable housing development.
28. Evidence from Professors Tony Crook, Craig Watkins and Christine Whitehead
29. Ibid
30. Lord, A *The Incidence, Value and Delivery of Planning Obligations and Community Infrastructure Levy in England in 2016-17* (MHCLG, 2018)
31. Aubrey, T *Gathering the Windfall: How Changing Land Law Can Unlock England's Housing Supply Potential* (Centre for Progressive Policy, 2018)
32. Lord, A *The Incidence, Value and Delivery of Planning Obligations and Community Infrastructure Levy in England in 2016-17* (MHCLG, 2018)
33. MHCLG Table 1000C "Additional Affordable Homes Provided by Type of Scheme, Completions, England"
34. Evidence from Professors Tony Crook, Craig Watkins and Christine Whitehead
35. Stephens, M *Housing Review 2017* (CIH, 2017)
36. TCPA *Planning for Affordable Housing* (2018)
37. Lord, A *The Incidence, Value and Delivery of Planning Obligations and Community Infrastructure Levy in England in 2016-17* (MHCLG, 2018)
38. CIH *2019 Housing Review* states that in 2017/18 some 17% of new build social rented housing was supported by section 106, compared with 10.5% of that not supported by section 106.
39. Monk, S et al *Delivering Affordable Housing through Section 106* (JRF, 2006)
40. MHCLG *Government Response to Reforming Developer Contributions: A Summary of Responses to the Technical Consultation on Draft Regulations and the Government's View on the Way Forward* (2019)
41. *Planning 2020: The Raynsford Review of Planning in England* (TCPA, 2018)
42. MHCLG, *National Planning Policy Framework* (2019) and associated Planning Practice Guidance. This follows the 2018 High Court judgement that overpayment in relation to local plan requirements could not be a reason for downward renegotiation – see Parkhurst Road Ltd v Secretary of State for MHCLG, 2018.
43. See MHCLG *Reforming Developer Contributions* (2018).
44. Prime Minister's Office *Queen's Speech* December 2019 – background briefing notes (2019)
45. MHCLG *Queen's Speech: Delivering Fairer, More Affordable Homes for Buyers and Renters* (2019)
46. MHCLG *Consultation on the Design and Delivery of First Homes* (2020)
47. Evans, J "Councils Join Criticism of Starter Homes Plan" in *Financial Times*, 17 February 2016
48. TCPA *Lifting the Curtain on PDR* (2019)
49. According to the Action on Empty Homes report *Affordable Homes from Commercial Spaces* (2016), "It is unlikely that the market-led conversions through permitted development rights have contributed greatly to the delivery of affordable housing."
50. Clifford, B, Ferm, J, Livingstone, N & Canelas, P *Understanding the Impacts of Deregulation in Planning: Turning Offices into Homes?* (Palgrave, 2019)
51. TCPA *Planning Reform: Supporting the High Street and Increasing the Delivery of New Homes Consultation* (2019)
52. LGA "Over 13,500 Affordable Homes Lost Through Office Conversions" (11 January 2020)
53. Reported in Wilding, D "Councils Air Permitted Development Concerns", *Planning Resource* 28 November, 2018
54. "Affordable Homes Lost in Office Conversions", *First: The Magazine for Local Government*, No.631, January 2019
55. RICS *Assessing the Impacts of Extending Permitted Development Rights to Office-to-residential Change of Use in England* (2018)
56. Centre for Cities *Converting Shops into Houses is not the Panacea for Struggling High Streets* (2018)
57. MHCLG *Public Land for Housing Programme 2015-20: Progress Report* (2019)
58. See Future of London *Delivering Infill Development* (2015)
59. Draft New London Plan *Policy H5 Delivering Affordable Housing* (GLA)
60. NEF *Mass Sell-off of Public Land Fails to Deliver Social Housing* (2019)
61. London Assembly Planning Committee *London Plan Consultation Process* (2018)
62. See JLL, *Can Today's Car Parks Become Tomorrow's Housing Developments?* (2017)

PART EIGHT: A mix of social housing

1. MHLCG Live Table 244
2. MHCLG Live Table 600 and 244 "Completions"
3. MHCLG Live Table 244
4. See RTPI *Local Authority Direct Delivery of Housing: Advice for Planners on How to Support Local Authority-led Housing Delivery* (2019)
5. The 33 ALMOs in England manage 452,000 homes and have built over 1,000 affordable homes a year.
6. Morphet, J & Clifford, B *Local Authority Direct Delivery on Housing: Continuation Research* (RTPI/UCL, 2019)
7. Inside Housing *Council Housing Back With a Vengeance* (October 2019)
8. Capital Economics "Shelter Suggesting It Could Add Up to 27,500 Council Homes a Year by 2023/24" (2014)
9. In the OBR's *Economic and Fiscal Outlook – October 2018* it forecast that following the borrowing cap being lifted 20,000 local authority homes would be built. This would be offset by a reduction in private and housing association properties being developed, resulting in an additional 9,000 being built over the period. Savills has suggested that it could deliver 15,000 homes a year (*Raising the Roof: Analysis of Housing Revenue Account Headroom*, 2017).
10. LGA *HRA Cap Removal: Survey Results* (2019). Note that some 205 councils with no HRA will be unable to use the borrowing powers. It should be noted that there are a range of priorities for those with HRAs, including seeking to invest in existing stock and using other vehicles than the HRA headroom to build.
11. DCN/LGIU survey on HRA borrowing 2019
12. Smith Institute *Delivering the Renaissance in Council-built Homes: The Rise of Local Housing Companies* (2017)
13. GLA *Building Council Homes for Londoners*
14. See Falk, N & Rudlin, J *International Examples of Affordable Housing* (URBED for Shelter, 2018)
15. See for example Hudon, J *The Wider Benefits of Co-housing* (LSE, 2019)
16. National Community Land Trust Network, "Community Housing Fund: We Are Calling for the Community Housing Fund to be Extended"
17. National Community Land Trust Network *Affordable Homes for Local People* (2019)
18. National Community Land Trust Network evidence to the AHC
19. National Community Land Trust Network *Community-led Housing and Retail Mortgage Lending: Building a Partnership* (2018)
20. As part of the Housing & Planning Act 2016, local authorities are required to help find land for those who have an interest in building their own home (through the right to build register).
21. Examples include Cherwell District Council, which has the UK's largest custom and self-build housing site, and Plymouth City Council, which is enabling self-build opportunities for armed forces veterans.
22. See the NACSBA website.
23. Smith Institute *Local Housing Community Living: Prospects for Scaling Up and Scaling Out Community-led Housing* (2016)
24. SMF *Co-Living: A Solution to the Housing Crisis?* (2019)
25. Centre for Social Justice *Housing That Works: Can Employers Help Solve the Housing Crisis?* (2019)
26. CBI "London Housing Shortage a Ticking Time Bomb for Firms" (CBI/CBRE, 26 April 2018)
27. London First *Hard Choices: How Much Should the Nation Spend on Building New Homes?* (2018)
28. See for example, North East Chamber of Commerce report *Laying the Foundations* (2016)
29. See *Rebuilding the Relationship Between Affordable Housing and Philanthropy* (Smith Institute, New Philanthropy Capital & Peabody, 2013)
30. Nationwide Building Society "Creating a New Community in Swindon" (19 July 2019)
31. University of Oxford "New Partnership Will Develop Housing and Science Parks for University" (27 June 2019)
32. Salford Royal NHS Trust "New Homes for Doctors and Nurses to Help Plug Acute Staff Shortage" (2018)

33. Research by NEF in 2019 showed that the average sale prices of many houses built on NHS land was 9.6 times the average annual salary of a nurse. NEF "Houses Built on NHS Land Sold for Up to 9.6 Times the Average Nurse's Salary" (3 June 2019)
34. Microsoft news centre releases on the company's $500 million workforce housing programme
35. Centre for Social Justice *Housing That Works: Can Employers Help Solve the Housing Crisis?* (2019)
36. Urban Institute *The Low-Income Housing Tax Credit: How It Works and Who It Serves* (2018)
37. See Cato Institute *LIHTC: Costly, Complex and Corruption Prone* (2017)
38. Winston Churchill Foundation *Funding Affordable Housing: Low-income Housing Tax Credits in the USA and Their Potential in the UK* (2014)
39. MHCLG *English Housing Survey 2017, Stock Profile and Condition 2017*
40. By 2039 nearly a third of people in rural areas will be retired – see National Housing Federation *Demographic Change and Housing Wealth* (2018). Defra data shows that 25% of the population in predominantly rural areas is aged over 65, compared with 17% in predominantly urban areas – DEFRA *Rural Population and Migration* (2020).
41. MHCLG, *English Housing Survey Housing Stock Summary Statistics* Table DA3202 (SST3.3): "Decent Homes – Areas, 2017"
42. MHCLG *English Housing Survey 2017, Stock Profile and Condition*
43. Defra data shows that over 80% of new homes built in predominantly rural areas 2017/18 were in the form of market housing. See Defra *Housing Availability and Affordability* (August 2019)
44. Snelling, C *A Right to a Home: Rethinking Rural Homelessness* (IPPR, 2018) and research by Rural Housing Solutions
45. MHCLG *Affordable Housing Supply: April 2018 to March 2019 England*
46. See the independent Rural Housing Policy Review *Affordable Housing: A Fair Deal for Rural Communities* (2015)
47. According to MHCLG data, 173,584 households were on council waiting lists in rural authorities as of April 2018. Funding for rural housing between 2012/13 and 2016/17 has been 9% of the total Affordable Housing Programme, while 17% of the population of England live in rural areas.
48. A CLA members survey, "Building on Strong Foundations" (2016), showed that "difficulties with the planning system" were by far the main barrier to development.
49. ACRE evidence to the AHC. It should also be noted that rural exemption is only partial, with only 38% of parishes covered by the rural designation.
50. House of Lords Select Committee on the Rural Economy, *Time for a Strategy for the Rural Economy* (2019). This point is borne out by recent delivery on rural exception sites, with numbers falling over the past four years to just 786 dwellings last year (MHCLG data).
51. For example, see Sharman, L "Local Authorities 'ignoring' Potential of Rural Exception Sites" in *LocalGov*, 12 January 2017. Evidence from the Rural Housing Alliance to the House of Lords Select Committee on the Rural Economy Time for a Strategy for the Rural Economy (2019), stated that "just five local authorities built 45% of all affordable homes on rural exception sites since 2011".
52. Shelter/CPRE *Viable Villages: Closing the Planning Loophole that Undercuts Affordable Housing in the Countryside* (2018); and Shelter *Slipping Through the Loophole: How Viability Assessments are Reducing Affordable Housing Supply in England* (2017)
53. CLA "Local Councils Ignore Building Affordable Homes on Farmland" (2018)
54. CPRE evidence to the AHC
55. HACT *A Guidenote for Community Groups on Community-led Housing and the Role of Housing Associations* (July 2015)

PART NINE: Addressing affordability directly

1. For population growth see ONS *2016-based Subnational Population Projections for Local Authorities and Higher Administrative Areas in England* (2018). For housing needs see Bramley, G *Housing Supply Requirements Across Great Britain for Low-income Households and Homeless People: Main Technical Report* (Herriot-Watt, 2019)

2. See HM Land Registry *UK House Price Index* and NOMIS population estimates based on data from ONS Population Estimates Unit. For example, Salford has experienced higher than average price and population growth but has lower than average house prices, whereas London's house prices have been fairly stable in the past few years.
3. MHCLG Live Table 1009
4. Stephens, M *Institutional Responses to the UK Housing Market Recession* (Urban Studies, 1996)
5. The Mortgage Rescue Scheme saw housing associations buy and rent a property to existing home owners at 80% of market rents where home ownership was considered unaffordable.
6. MHCLG, Live Table 1009. Some social landlords are converting these properties into affordable homes using government grant – see Simpson, J "Housing Associations Buy Up Discounted Homes from Builders amid Brexit Uncertainty" in *Inside Housing* (November 2019).
7. Investing 4 Brent *Business Plan* (2016)
8. London Councils "London's innovative modular housing scheme for the homeless opens to tenders", 18 July 2018
9. Onward *Make a House a Home: How to Give Private Renters a Chance to Buy and Encourage Longer Tenancies* (2018)
10. Norrington, J "Find the REIT Way to Harvest a Property Income" in *Investors Chronicle*, 22 August 2019
11. See MHCLG Live Table 615 "All Long-term Vacant Dwellings by Local Authority District, England, from 2004" and Action on Empty Homes report *Empty Homes in England 2019*
12. Nicol, S et al *The Cost of Poor Housing in the European Union* (BRE, n.d.)
13. Homes built before 1919 comprise 35% of the PRS, 21% of owner-occupied homes and 7% of social-sector homes. See MHCLG *English Housing Survey 2018-19 Headline Report* (2020)
14. See Federation of Master Builders *Homes on Our High Streets* (2017)
15. Reported by Onita, L "One in Ten Shops Now Empty as Crisis Batters the High Street" in *Daily Telegraph*, 27 September 2019 and BRC "Vacancy Rate Worst in Over Four Years", 12 August 2019
16. For example, see Turley Associates/Dumfries & Galloway Council, *Annan Regeneration Masterplan Report Design Guidance: Regeneration Strategy* (2019)
17. According to See Action on Empty Homes report *Empty Homes in England 2019*, there are around 252,000 second homes in the country (out of 634,000 vacant dwellings).
18. Evidence from Bristol City Council
19. Hackney Council, for example, markets its private-sale homes locally, ahead of overseas investors. See Hackney Council *How Hackney is Building* (2019)
20. "St Ives Backs Residents-only Home Ownership Plan in Referendum" in *The Guardian*, 6 May 2016
21.
22. Council tax can be charged at rates of up to double on property defined as empty for over two years, 200% extra for properties empty for five to 10 years (commencing in 2020) or 300% extra (for properties empty for more than 10 years) (commencing in 2021). From Sandford, S *Council Tax: Empty Properties* (House of Commons Library, 2018)
23. The government's three-year £216 million Empty Homes Programme ended in 2015. The Shared Ownership and Affordable Homes Programme 2016-21 did not include separate funding for empty homes. See Wilson, S *Empty Housing (England)* (House of Commons Library, 2019)
24. Nationwide "How Can the Government Help With Empty Homes?" (2019)
25. Eadson, W, et al *Houses into Homes: Final Evaluation Report* (Sheffield Hallam University/Welsh Government Social Research, 2015). Most accessing funding were individual owners and the majority aimed to let the property. Around a third of properties being brought back to use were affordable.
26. House of Commons Library *Right to Buy* (1999)
27. Forrest, R et al *The Resale of Former Council Homes* (Department of the Environment, 1995)
28. House of Commons Library *Right to Buy* (1999)
29. Wilson, W & Barton, C *Introducing a Voluntary Right to Buy for Housing Association Tenants in England* (House of Commons Library, 2018)
30. House of Commons Library, *Right to Buy* (1999) and Wilson, W & Barton, C *Introducing a Voluntary Right to Buy for Housing Association Tenants in England* (House of Commons Library, 2018)
31. Clark, T "Weak Uptake of Voluntary Right to Buy Pilot", *Social Housing*, 3 April 2019

32. MHCLG, Live Table 678; 1.9 million local authority homes have been sold under right to buy and just under 2m have been sold under LA, Preserved and Voluntary Right to Buy Sales
33. MHCLG, *Use of Receipts from Right to Buy Sales*, 2018
34. Cambridge Centre for Housing & Planning Research *Mixed Communities – Literature Review* (2011)
35. Cole, I et al *The Impact of the Existing Right to Buy and the Implications for the Proposed Extension of Right to Buy to Housing Associations* (Communities & Local Government Select Committee, 2015)
36. Barker, N "Revealed: The Scale of ex-RTB Home Conversions to Private Rent" in *Inside Housing*, 7 December 2017
37. Ibid
38. Copley, T *From Right to Buy to Buy to Let* (2014)
39. Evidence from the London Borough of Tower Hamlets
40. Jones, C *Exploitation of the Right to Buy Scheme by Companies* (ODPM, 2003) cited in Cole, I et al *The Impact of the Existing Right to Buy and the Implications for the Proposed Extension of Right to Buy to Housing Associations* (Communities & Local Government Select Committee, 2015)
41. Sprigings, N & Smith, D "Unintended Consequences; Local Housing Allowance Meets the Right to Buy" in *People, Place & Policy Online* (Vol 6, Issue 2, 2012)
42. Hills, J et al *Wealth Distribution, Accumulation, and Policy* (Centre for Analysis of Social Exclusion, 2013) cited in Cole, I et al *The Impact of the Existing Right to Buy and the Implications for the Proposed Extension of Right to Buy to Housing Associations* (Communities & Local Government Select Committee, 2015)
43. MHCLG Live Table 682 "Social Housing Sales: Annual Financial Data on Right to Buy Sales for England: 1998-99 to 2017-18"
44. CIH *2019 UK Housing Review* - Homes England Affordable Homes Programme (2019)
45. Caps at the time ranged from £16,000 in London to £38,000 in the South East.
46. See work by Janice Morphet at Bartlett School of Planning, UCL and Smith Institute's *Delivering the Renaissance in Council-Built Homes* (2017).
47. Park, A et al *British Social Attitudes 28, Housing: Homes, Planning and Changing Policies* (NatCen, 2011-12)
48. Wilson, W & Barton, C *Introducing a Voluntary Right to Buy for Housing Association Tenants in England* (House of Commons Library, 2018)
49. Sales for 2018/19. Housing association sales include (preserved and voluntary) RTB sales and other sales to tenants. MHCLG, Table 678 "Social Housing Sales: Annual Sales by Scheme for England: 1980-81 to 2018-19"
50. The Conservative Party Manifesto 2015
51. Wilson, W & Barton, C *Introducing a Voluntary Right to Buy for Housing Association Tenants in England* (House of Commons Library, 2018)
52. MHCLG *A New Deal for Social Housing* (2018)
53. MHCLG "James Brokenshire Launches £200 million Pilot to Boost Social Home Ownership", 16 August 2018
54. Clark, T "Weak Uptake of Voluntary Right to Buy Pilot" in *Social Housing*, 3 April 2019
55. See: *The Conservative and Unionist Party Manifesto 2019*
56. MHCLG, *Voluntary Right to Buy – Midlands Pilot: Guidance for Housing Associations* (2018)
57. HM Treasury *Spending Review 2010*
58. HCA *Shared Ownership and Affordable Homes Programme 2016 to 2021 Prospectus* (2016)
59. HCA/DCLG *2011-15 Affordable Homes Programme – Framework* (2011)
60. Rents and incomes were banded – an even distribution between bands was assumed and the midpoint taken. All rents over £110 have no upper bound, so were excluded from the analysis. Given the much higher rents for AR housing, the analysis was limited to one-bed properties, which would be less likely to exceed the £110 mark. For the same reason, London was excluded from the analysis. 9,145 cases were observed for general needs social rent and 1,017 for the AR results. Median weekly incomes for both groups were £295.
61. Rent is net of housing benefit and HB is not included in the household's income. As it is a two-person household, equivalisation has no impact on income levels. Rent is calculated on a one-bedroom property. Full-time worker is classed as working 35 hours a week with the other person claiming jobseeker's allowance.
62. Based on data from ONS *Households Below Average Income: 1994/95 to 2017/18*

63. Planning & Housing Committee *Implications of the Affordable Rent Model in London* (London Assembly, 2011)
64. In 2016 Sadiq Khan announced that he would "not approve any further conversions" in his AHP 2016-21.
65. Hollander, G "Exclusive: Peabody Plans to Stop Charging Affordable Rent" in *Inside Housing*, 2 May 2018
66. AHC analysis of Regulator of Social Housing, *Statistical Data Return, 2018/19*
67. See BPF *Build-to-rent Map of the UK*
68. Build-to-rent is a distinct asset class within the private rented sector, and has been defined in the National Planning Policy Framework glossary, in order to simplify its treatment within the planning system.
69. BPF *Unlocking the Benefits and Potential of Build to Rent* (2017)
70. Savills *UK Build-to-rent Market Update – Q3 2019*
71. BPF *Building Boom for UK Build-to-rent Housing*, 17 January 2019
72. JLL *Evaluating Build-to-rent Performance* (2018)

PART TEN: Making rents affordable

1. Shelter took rents from MHCLG Live Tables 702 & 704. Approximate inflation calculations made using the Bank of England Inflation Calculator tool.
2. After a government commitment that social rents would rise by the CPI plus 1% each year for 10 years, in 2015 the Chancellor announced that rents in social housing would be reduced by 1% a year for four years. This led to a 12% reduction in average rents by 2020-21.
3. The House of Commons Library paper *Rent Setting: Social Housing England* (2019) mentions some 1.2 million non-claimant tenants benefiting by around £700 a year (at 2015 prices).
4. Ibid – mentioned in the HoC Library paper.
5. Fenton, A et al *Market-pegged Social Rents & Local Income Distributions* (Cambridge Centre for Housing & Planning Research, 2011)
6. Wilcox, S *The Vexed Question of Affordability* (1999)
7. Savills *Living Rent Methodology* (2015)
8. GLA "Mayor to Develop 'Rent Control' Proposals", 23 January 2019
9. Fabian Society/Shelter *Beyond Affordability* (2019)
10. See Rugg review – op cit.
11. NEF *Getting Rents Under Control: How to Make London Rents Affordable* (2019)
12. Wilson, W *A Short History of Rent Control* (House of Commons Library, 2017)
13. Whitehead, C & Williams, P *Assessing the Evidence on Rent Control From an International Perspective* (LSE, 2018) and Scottish Government website
14. This is in line with Richard Arnott's typography of rent control. Arnott, R "Time for Revisionism on Rent Control?" in J*ournal of Economic Perspectives* (Vol 9, Issue 1, 1995)
15. Jenkins, B "Rent Control: Do Economists Agree?" in *Econ Journal Watch* (Vol 6, Issue 1, 2009)
16. For a fuller discussion see Jenkins, B "Rent Control: Do Economists Agree?" in *Econ Journal Watch* (Vol 6, Issue 1, 2009); Whitehead, C & Williams, P *Assessing the Evidence on Rent Control From an International Perspective* (LSE, 2018); and Arnott, R "Time for Revisionism on Rent Control?" in *Journal of Economic Perspectives* (Vol 6, Issue 1, 1995)
17. See ONS *Experimental Index of Private Housing Rental Prices* and Valuation Office Agency *Private Rental Market Statistics*
18. Clarke, A et al *Research on the Effect of Rent Stabilisation Measures in London* (CCHPR, 2015)
19. According to MHCLG the average length of residence in the PRS is 3.9 years, compared with 11.3 years in the social sector. However, 81% of tenancies granted are for an initial fixed term of 6-12 months and average figures are likely to be skewed by longer-term tenants – see MHCLG *Overcoming the Barriers to Longer Tenancies in the Private Rented Sector* (2018).
20. The *English Housing Survey 2017-18* found that the average length of residence in the private rented sector was 4.1 years, although YouGov research for Shelter showed that in the past five years, one in five families renting privately had moved at least three times.
21. Evidence to the AHC

PART ELEVEN: Affording housing quality

1. For example, average price of a new-build property is £309,000, compared with £219,000 for first-time buyers – ONS *House Price Data: Quarterly Tables*. There is also said to be a new-build premium. RICS *June 2019: UK Residential Market Survey* found that respondents reported a 5-10% premium.
2. See LGA “Confidence in New Builds Falls as Average House in England Will Have to last 2,000 Years”, 18 August 2017. According to LGA research, £27 billion was spent on the repair and maintenance of existing homes in 2016, with £35 billion spent on building new ones.
3. For example see Guzman-Castillo, M et al “Forecasted Trends in Disability and Life Expectancy in England and Wales Up to 2025: A Modelling Study” in *Lancet*, 23 May 2017
4. See RTPI *Better Planning: Smart City Regions* (2017)
5. Committee on Climate Change *UK Housing: Fit for the Future?* (2019)
6. Ibid
7. The 1949 Housing Act introduced housing grants for private owners and improvement subsidies for local authorities. From Balchin, P *Housing Policy* (Routledge, 1995)
8. The limits on renovation grants are £20,000 for owner-occupiers and tenants, and between £10,000 and £15,000 per unit for landlords.
9. Buck, D & Gregory, S *Improving the Public’s Health: A Resource for Local Authorities* (The King’s Fund, 2013)
10. Nicol, S et al *The Cost of Poor Housing to the NHS* (BRE)
11. Wilson, W *Assistance with Home Repairs/Improvements* (House of Commons Library, 2017)
12. Care & Repair England *Grant Determination 2018-19*
13. According to Parliamentary briefing *DFG for Home Adaptations* (2018), DFG grants completed in England fell from 45,000 in 2010/11 to 34,000 in 2014/15.
14. See Foundations report *The Disabled Facilities Grant: Before and After the Introduction of the Better Care Fund* (2016).
15. EHRC *Housing and Disabled Britain* (2018)
16. See www.habinteg.org.uk/homecoalition/
17. Foundations, the national government-sponsored umbrella body for HIAs, states there are 200 HIAs across the UK (also known as Staying Put, Care & Repair agencies), which together deal with some 300,000 enquires a year.
18. Smith Institute *The Hidden Cost of Poor-Quality Housing in the North* (2018)
19. See MHCLG *English Housing Survey 2017 to 2018: Private Rented Sector*
20.
21. According to the Housing Ombudsman, repairs is consistently the biggest category of complaint, accounting for over a third of all complaints dealt with each year.
22. See Arc4 *PRS Markets in Greater Manchester: A Summary of Evidence and Strategic Issues* (2019)
23. The Act came into force for new tenancies in 2019 and pre-existing tenancies in 2020.
24. Fabian Society *The Right to Justice: The Final Report of the Bach Commission* (2017)
25. See research by the Northern Housing Consortium on assessing the loss of local government housing and planning functions.
26. Evidence to the House of Commons Housing, Communities & Local Government Committee, *Private Rented Sector* (2018)
27. House of Commons Housing, Communities & Local Government Committee, *Private Rented Sector* (2018)
28. Ibid
29. See MHCLG *English Private Landlords Survey* (2018)
30. Law Commission *Renting Homes: The Final Report* (2006)
31. Marsh, A & Gibb, K *The Private Rented Sector in the UK* (CaCHE, 2019)
32. AHC calculations based on English Housing Survey 2017 data
33. The median cost of rectifying non-decent homes in the PRS varies – in the West Midlands around £1,481 per property, compared with £3,686 in Greater London and £2,268 for England as a whole. See Rugg, J & Rhodes, D *The Evolving Private Rented Sector: Its Contribution and Potential* (2018)

34. RLA/Pearl *The Postcode Lottery of Local Authority Enforcement in the PRS* (2018)
35. MHCLG *Local Authority Housing Statistics Data Returns, England 2016-17*
36. MHCLG *English Private Landlord Survey* (2018)
37. MHCLG *An Independent Review of the Use and Effectiveness of Selective Licensing* (2019)
38. Rugg, J & Rhodes, D *The Evolving Private Rented Sector: Its Contribution and Potential* (York University, 2018)
39. See MHCLG *An Independent Review of the Size and Effectiveness of Selective Licensing* (2019)
40. NAO *The Decent Homes Programme* (2009) and MHCLG Table 119 "Dwelling Stock: Stock of Non-decent Homes, England 2001-2019"
41. Table 119 "Dwelling Stock: Stock of Non-decent Homes, England 2001-2019"; according to landlord survey, 1.8% of their stock is now non-decent. In the EHS data non-decent homes have moved from 13% of the social housing stock to 12% over the period 2015–2018.
42. MHCLG, English Housing Survey 2017: Stock Condition (2019)
43. The total cost of the Decent Homes Programme up to 2011 is estimated at between £40 billion and £60 billion, with around half the funding in direct grants from government.
44. Regulator of Social Housing, *2019 Global Accounts of Private Registered Providers*. Based on English Housing Survey data, the cost of bringing all housing association properties up to a decent standard would be around £1.1 billion.
45. See Barratt, L "Large London Housing Associations Estimate Fire Safety Costs at Nearly £6.9bn", in *Inside Housing*, 16 September 2019.

PART TWELVE: Housing welfare

1. See the annex on the costs and benefits of investing in social housing for more details.
2. CIPFA Housing Panel *The Causes and Effects of the Affordability Crisis and What Should Be Done to Tackle the Issue* (2019)
3. DWP *Expenditure and Caseload Forecasts* (2019)
4. It should be noted that the English Housing Survey probably under-reports housing benefit claims.
5. AHC analysis of the English Housing Survey 2017
6. See Crisis *Cover the Cost: How Gaps in Local Housing Allowance are Impacting Homelessness* (2019) and NAO *Homelessness* (2017).
7. Fitzpatrick, S et al *The Homelessness Monitor: England 2019* (Crisis)
8. CIH *Missing the Target? Is Targeted Affordability Funding Doing Its Job?* (2018)
9. Ibid
10. Alma Economics *Local Housing Allowance: Options for Reform* (2019)
11. Brewer, M *Econometric Analysis of the Impacts of Local Housing Allowance Reforms on Existing Claimants* (DWP, 2014)
12. Kennedy, S & Keen, R *Universal Credit Roll-out: 2018-19* (House of Commons Library, 2018)
13. According to DWP calculations 36% will be claiming ESA – (assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/718580/uc-transitional-regs-2018-explanatory-memorandum.pdf)
14. Smith Institute *Safe as Houses* reports for Southwark Council
15. Foley, B *Delivering on Universal Credit* (Citizens Advice)
16. Hunter, P *Safe as Houses 4* (2020)
17. NAO *Rolling Out Universal Credit* (2018)
18. "Landlords 'Unwilling' to Rent to Universal Credit Recipients" in *The Guardian* (December 2017)
19. RLA "Universal Credit Rent Arrears Rocket Says New Research" (2018)
20. Centre for Regional Economic & Social Research *Direct Payment Demonstration Projects: Key Findings of the 18 Months' Rent Account Analysis Exercise* (DWP, 2014)
21. DWP *Universal Credit and Social Landlords: Review of the Trusted Partner Pilot* (2017)
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Appendices

1. This assumes a discount rate of 3.5% and a value-for-money analysis based on the social benefits of choosing this option versus an alternative spending commitment.
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Making Housing Affordable Again.

Over the past 18 months the independent Affordable Housing Commission has undertaken a wide-ranging review of housing affordability in England. This – the final report – has over 50 recommendations and calls for a collective effort, led by government, to rebalance the housing system to make housing affordable again.

Contact us

Email: info@affordablehousingcommission.org

Twitter: @AHC_Housing

Website: www.affordablehousingcommission.org