Making Housing Affordable Again: Rebalancing the Nation's Housing System. The final report of the Affordable Housing Commission (2020), A REVIEW

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The Affordable Housing Commission's final report was published during the Covid-19 emergency. It received very little media attention and, in the crisis aftermath, will probably gather dust on the shelves of the Cabinet Office despite being addressed directly to the government and conservative in its recommendations.

The report is replete with interesting statistics. A few examples are given below.

Government investment in housing and social housing records the housing share of government investment showing a decline from 2.8% in 2009/10 to 1.3% in 2016/17 and a small increase to 1.5% in 2017/8.

Comparison of mean Affordable Rents to social rents for new lettings in London, 2017/18 reveals that affordable rents across 1 bedroom to 4 bedroom homes are 65% above social rents.

Weekly rent levels 2018-19 shows that the mean market rent for a three bedroom property was £211.44 and the lower quartile market rent was £142.03

Proportion of new build to existing stock reveals a fall from 1.9% in 1969 to 0.5% in 2014 before recovering to 0.7% in 2018.

Areas with Local Housing Allowance with large shortfalls in two-bedroom accommodation by region demonstrates that in Inner East London the shortfall was £56.80, in Bristol £39.57 and, in South West Herts., £38.77.

Recommendations

The Commission's recommendations flow from the evidence base used.

1. to rebalance the housing system to provide affordable housing opportunities for all by 2045;
2. to make affordable housing a national priority and to put it at the centre of a national housing strategy;
3. to adopt a new definition and measures of housing affordability, which relate to people's income and circumstances;
4. to increase investment in new social housing, alongside reforms to help rebalance the system away from the private rented sector to social housing;
5. to constrain rent increases, end Affordable Rent and reform the right to buy;

6. 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
7. to improve the safety net for struggling renters and home owners, and to bring all homes up to a safe and decent standard.

These recommendations form a string of step-change modifications to current housing policies, many familiar in the housing literature. In the detail of the report, no idea is left unexamined, albeit many suggestions are for a government to review the topic.

The first two are pleas to the government to change direction. The third has more substance because the Commission offers an affordability definition of: 'Your housing costs should not exceed 33% of your net income'. The supporting argument and evidence advanced to underpin this definition is sparse and its cornerstone appears to be 'Spending 33% or less of your income on housing cost was seen as "affordable" in our focus groups' The definition illustrates how the public and academia have become acclimatised to high housing costs. The traditional definition of affordable has been 25% (one week's pay for one month's rent) and, not too long ago, the National Housing Federation was campaigning for a 25% threshold.

Proposal four reflects the dominant theme of the report: social housing has been replaced by private renting. The table *Tenure shifts in the bottom half of the income distribution*, showing that, since 2007, private renting has increased by 10% whereas social housing has declined by 9% and owner-occupation is down by 1%, backs the theme, albeit that the all age table masks the large fall in owner-occupation amongst the younger age groups, especially households with children. The remedy is to increase social housing supply and large sections of the report are devoted to exploring the long-term social and economic benefits of higher up front grants to social housing suppliers.

Recommendation five applies to the existing stock: stop rents rising; eliminate the affordable rent regime and curtail the Right to Buy.

An abundance of suggestions are advanced to reduce the costs of stepping onto the homeownership ladder including increasing supply and limited curbs on private landlords such as stopping interest only loans.

The seventh set of proposals are concerned with plugging the holes in the welfare safety net and ensuring that affordability does not compromise safety and decent homes. The recommendations include a welcome examination of affordability in 'old age' that recognises the diversity of circumstances in this all too often over-aggregated category.

Private Renting

The Commission appears to regard the growth in private renting as a response to the difficulties involved in access to owner-occupation whereas private renting has been a major contributor to the decline in homeownership. The *English Private Landlord Survey 2018: Main Report* (MHCLG, 2019) reveals the changing nature of private landlordism. In terms of tenancy per cent , 48% of tenancies are now held by landlords with five or more properties with 14.9% owning 25% plus. 38.7% of landlords had no debt and, of those with loans, only 3.7% had loans above their asset value. The mean average value per property was £261,885. The mean *non-rental* income of landlords was £45, 746 and the mean proportion of rental income to total income was 43%.

Landlords compete mainly in the same territory as first-time buyers — 47% have terraced houses and 40% have flats in their portfolios — but have been increasingly moving into the 'second stepper' domain — an issue neglected by the Commission — with 35.5% owning semi-detached homes and 16.8% detached houses. 43.9% of landlords let to couples with children and 25.1% to single parent families.

According to Savills (2018)

> Homeowners without a mortgage have gained an extra £725 billion of equity since 2007. Meanwhile, private landlords have accumulated £676 billion. As a result, private landlords have seen their share of housing wealth grow larger than the chunk owned by homeowners with a mortgage. Landlords have £1.27 trillion in housing equity, 5% higher than the £1.21 trillion owned by mortgaged homeowners.

Landlords have to pay Capital Gains Tax on value increase when a property is sold but, during their meteoric rise, private landlords have had many 'business expenses' tax breaks unavailable to homeowners such as tax relief on mortgage interest, a tax offset worth 10% of their annual net rental income covering 'wear and tear' on furniture and fixtures. Other claimable expenses included broker and arrangement fees; letting agent fees; advertising; tenant credit checking; obtaining references; deposit protection costs; insurance premiums; maintenance and repairs; ground rent and service services and the direct costs of letting the property such as phone calls and the business costs of travelling between different properties. For a time, affordability tests— limiting the number of mortgages more than four-and-a-half times a borrower's income — did not apply to buy-to-let loans. This meant that a high proportion of the finance released by Quantitative Easing and Funding for Lending was taken up by private landlords, not by potential first-time buyers (Robinson, 2018).

Every potential homeowner outbid by the growing number of cash rich landlords, with their tax breaks and better access to mortgages, has added to the pool of renters in the private rented market and high rents have added to the problems involved in saving for a mortgage.

The Commission states:

> 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.

It wants to see a smaller, more professional, private rented sector. Just how small is not specified but the Commission's policy recommendations are unlikely to make a significant difference. More new social housing will divert lower-income households from private renting but it will take a long time to deliver a tenure change. Constraining rent increases to inflation, stopping interest only loans to private landlords and limiting the Right to Buy (many homes sold under the Right to Buy end up in the private rented sector) will have a limited impact. Perhaps more can be expected from Commission's suggestion that, as in the 1970s, social housing suppliers should buy-up and recondition run-down private landlord stock.

Rent Control

The Commission's proposals aimed at boosting home-ownership (see below) will also have an impact on private landlordism. Nevertheless, taken together, the Commission's advice on private landlordism looks timid. Having selectively reviewed the evidence on rent regulation the Commission concludes:

> …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.

A more comprehensive review of rent regulation in the UK would have revealed its beneficial impact. When rent control was at its strictest, over two million homes were transferred out of the private rented sector into owner-occupation many to low-income sitting tenants. Surely the best low-cost homeownership scheme ever! When 'fair rents' arrived they were welcomed by some landlords with William Stern stating that the end of rigid control and rent reviews every three years, rather than 14 to 21 years for commercial properties, meant that 'the long-term investment value of residential properties has become strengthened by the Act and its long-term effects will, on the whole, benefit rather than harm landlords as a class' (Stern, W. *Investor's Chronicle*, 25th April, 1966 p1xiii). Stern's company, Wilstar Securities, developed a substantial residential property portfolio until a property boom/slump killed the business.

In 2015 George Osborne, then Chancellor of the Exchequer, declared 'Frankly, people buying a home to let should not be squeezing out families who can't afford a home to buy' (Osborne, 2015). He cut the 'business expenses' available to landlords and introduced an extra 3% Stamp Duty Land Tax charge on second homes. It is difficult to separate the impact of these measures from other government initiatives such as Help to Buy but the 2018/9 English Housing Survey (MGCLG, 2020) notes:

> Between 2003-04 and 2013-14, the proportion of 25-34 year olds in owner occupation decreased from 59% to 36%. Since then, the proportion of owner occupiers aged 25-34 has increased to 41%. Meanwhile, the proportion of 25-34 year olds in the private rented sector declined from its peak at 48% in 2013-14 to 41% in 2018-19.

If the reintroduction of 'fair rents' is difficult to tolerate then why not increase the Stamp Duty Land Tax charge on second homes to curb private landlordism?

Homeownership

The Commission's proposals on expanding homeownership are modest. The current stress tests on mortgage applications are endorsed and 'The Commission welcomes the proposed reforms of the Help to Buy Equity Loan scheme and suggests it should include support for those buying homes in the existing market — but should be limited to lower income first-time buyers'. The scaling up and simplification of shared ownership is recommended and '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.

The Commission's over-riding concern with boosting the social housing stock appears to have inhibited its attempts to boost home-ownership amongst low-income households. As viewers of

Homes under the Hammer will know, buying a run-down property and improving it to basic standards before letting at a high rent has become a popular activity with the state sometimes under-writing the rent via Universal Credit. A return to the system of improvement grants for low-income households would enhance homeownership.

The Commission notes:

> 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. 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). 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.

This has worrying implications for the cost of state payments. Chaloner, Dreisin and Pragnell, (2015) comment:

> If trends over the past parliament were to continue, total expenditure on housing benefits in the United Kingdom would increase to £197.3 billion by 2065-66, up from £24.4 billion today — with households in the private rented sector accounting for 63 per cent of the total, compared to 37 per cent today.

Surely, action must be taken *now* to prevent large numbers of older people becoming retired as private renters.

This is related to 'Housing Welfare', the subject of chapter 12 of the Commission's report. Few housing pundits would disagree with:

> 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.

However, in the absence of rent controls, raising rent thresholds for Local Housing Allowance (LHA) may be more controversial despite the Commission's view that tenants would gain more than landlords from the change.

No consideration is given to extending LHA thresholds to the interest paid by low-income households in the owner-occupied sector. The cushion of LHA thresholds biases the housing decisions of low-income households to renting (as does Housing Benefit in the social housing sector). In the United States, Housing Vouchers (the equivalent of LHA/HB) can be used for homeownership so the idea ought to be worth considering in the UK.

Boosting Supply

Overall new housing supply is examined in *part seven: Land and planning* and *part sixteen: Housing delivery*. The Commission adopts a 350,000 homes a year target with an increase of around 100,000 private homes a year necessary. 'New communities' are endorsed as a good way of enhancing housing supply but analysis of why there has been such slow progress in delivering new towns and villages is absent. The planning system, with its ample opportunities for vested interests to stall initiatives has been responsible.

Modular homes in the social housing sector are endorsed and the Commission recommends:

> …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

Land and planning and *Housing delivery* are the most disappointing sections of the Commission's report.

Little evidence is supplied to support the 350,000 homes per year target — important because it is well above the government's current aspiration. The land issue receives cursory attention. Without supporting data, land costs are stated to be 20-35% of total build costs, a figure much lower than other estimates (Gleeson, 2017 :IPPRCSJ, 2018)

Land costs as a per cent of total build costs vary by area and density with density a reflection of high land costs in districts under housing pressure. Statistics on land costs relative to density in different parts of the country would have been enlightening. What is the land cost of building a semi-detached house with a decent garden in outer London? In the 1930s it was 10% of total build cost!

On the existing system of land release 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'.

However, there are other defects in current land release procedures. Local authorities only need to identify a five-year land supply, effectively drip feeding land onto the market to maintain prices. Before it was attacked by the National Trust and the Campaign to Protect Rural England the 2011 *Draft National Planning Policy* (DCLG, 2011) advocated enough land for a fifteen year housing supply. Moreover, the formula used by the MHCLG to determine the housing need in each local authority in England (influencing central sanctions under the Housing Delivery Test) is dampened so that not too much is expected from authorities that have under-delivered in the past. In London and its hinterland, the result has been to load high density new housing development into inner London.

The Commission endorses the idea of Local Authority Development Corporations to buy up land to meet future housing needs but at *ten* times (what?) existing use value. This high premium may well prevent any use of the power should it be granted.

On Green Belts the Commission states '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'

In a submission to the Commission I claimed that affordability was a symptom not a cause of the housing crisis. The Commission ignored this evidence and hence repeats the errors of housing policy over the past forty years. Injecting yet more state funding into a broken housing market, in an attempt to make housing more affordable, treats the indicators not the sources. The sources of unaffordable housing are located in the politicisation of land supply and commodification of housing provision and distribution.

The 1947 Town and Country Planning Act placed development rights with local planning authorities generating a 'planning system' that, especially after the 1971 Town and Country Planning Act, incorporated many of the Skeffington Committee's recommendations on public participation in planning, became a political arena. At the local level, this arena became a productive place for owner-occupiers to defend their territory and house values, aided by the Campaign to Protect Rural England. This planning apparatus has pushed up land, and hence house prices, for all and contributed to the affordability crisis for lower-income households. In the 1930s the land cost was about 10% of the price of London suburban house with a large garden. Today it is 70% (IPPRCSJ, 2018)

Housing has now become an investment rather than consumption good. This is reflected in the opposition of asset-rich homeowners to new development and in the rise of private landlordism. The Commission states:

> 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.

Rhodes (2015) identified a steep location gradient from 2001 to 2011 in the increase in private renting with private renting increasing by 37.5% in the least deprived 10% of districts, but by 89.5% in the most deprived 10% of districts.

Investment returns from private renting have been good at the very high cost of denying access to home-ownership on age, family size, income class, ethnicity, place and gender dimensions.

The private landlord profile replicates the class and age dimensions of the owner-occupation divide. Over half (59%) of landlords are aged 55 years and third are retired. The majority (89%) of landlords are White MHCLG (2019). An investigation by Shelter (2016) revealed that 82% were from social classes ABC, 29% had an annual income of more than £70,000 per year and 20% between £50,000 and £69,999. On the ACORN Group classification, private landlords were over-represented in the 'lavish lifestyle', 'executive wealth', 'mature money', 'city sophisticates' , 'successful suburbs' categories.

Conclusion

Reading the runes on the long-term implications of the Covid-19 crisis is extremely difficult with the attempt likely to produce fool's gold. Covid-19 has generated interesting reactions such as, on 26 March 2020, the Minister for Local Government and Homelessness writing to local authorities asking them to urgently accommodate all rough sleepers — action resulting from an 'externality' that many years of evidence-based lobbying has failed to elicit. Will the end of public health threat result in a return to normal?

One of the most searing images arising from the pandemic was an interview with a former Uber driver, locked down with two children in a flat on the fifteenth storey of a high-rise block and trying to access a five-week advance loan on Universal Credit. Many thousands of people are now experiencing the 'safety net' of the welfare state, not as the 'featherbed' portrayed in some of the media, but in its stark, austere, harsh reality. Millions may now empathise with their predicament and demand change but how many will make a connection between children living on the fifteenth storey of a high-rise block and the highly restrictive land release policy pursued in England?

Paying for the crisis and its long-term economic consequences raises numerous questions. The cost is likely to be far, far higher than the banking crisis with state borrowing extending the cost repayment over many years. Moreover, it may be politically impossible to push the costs onto reduced public expenditure in the health and social care sectors. Housing is likely to experience hard times with the main recommendation of the Affordable Housing Commission — higher up-front grants to social housing providers — falling on stony ground. In this context making housing more affordable will depend on using mechanisms involving no cost to the state, falling on the 'rentiers' in the system. Rent control of the 'fair rent' variety — reducing housing costs to the consumer, saving expenditure and promoting low-cost homeownership — looks a strong contender. A lot more land release costs the state nothing and makes housing more affordable. Does London really need be surrounded by 10 mile green belt?

Higher taxation will be required to pay off the public debt and a land tax, reclaiming the large 'unearned increment' from the vast hikes in land prices over the last 60 years should be high on the agenda.

An amended version of my submission to the Affordable Housing Commission added the sub-title 'We Need to Ask Who is getting the Cigars and Croissants', a question the Affordable Housing Commission should have raised but did not.

Note:

'Affordability: a symptom not a cure: We Need to Ask Who is getting the Cigars and Croissants' can be found at Researchgate or on my blog:

Either:

https://www.brian-lund-housing-blog.co.uk/

Or:

https://brianlundshousingcrisisblog.wordpress.com/

Brian Lund, April 2020