

# Perspectives on the Future of Housing:

A collection of viewpoints on  
the UK housing system



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# Preface

Diane Diacon, Director, BSHF

I am delighted to introduce this set of papers compiled for the Consultation on 'The Future of Housing: Rethinking the UK housing system for the twenty-first century' which took place over three days at St George's House, Windsor Castle in June 2009. The Building and Social Housing Foundation coordinated the Consultation, which was chaired by Lord Richard Best and attended by a wide range of experienced practitioners and academics from different housing-related disciplines.

The huge variety of factors – economic, social and political – that interact to form the UK housing system meant that covering this topic was no small task. In order to maximise the effectiveness of the Consultation we asked some of the participants to write a brief paper in advance of the meeting on the key ideas that needed to be addressed. This publication brings together these papers and is a collection of some key ideas, rather than an exhaustive or representative summary of every position.

The contributions are arranged in three sections, following the format used in the Inquiry into British Housing, which Lord Best coordinated in 1984.

## **These sections are:**

- Where are we now?
- Where do we want to be?
- How will we get there?

It will be obvious that most of the viewpoints fit into the third section. This represents a deliberate effort to capture the maximum number of new and developing ideas, for as Einstein noted, we cannot solve our problems by using the same kind of thinking we used when we created them.

These papers were compiled before the Consultation in June 2009. The political and economic situation has changed since then but the core ideas outlined in these papers are still relevant. They are intended to promote discussion and act as a companion to the main report that summarises the discussions of the Consultation. I would like to thank the authors for their contributions to this collection of viewpoints, noting that they represent their personal views, and trust that you will find them both interesting and challenging.

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# Introduction

## **Housing in the UK: challenges and opportunities**

Richard Best, Consultation Chair

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### **Today's challenging financial tsunami – coupled with turmoil in the Parliamentary system – will have lasting repercussions for housing in the UK.**

But before these crises struck, all was not well with the nation's housing. So could these upheavals, rather than spelling disaster for UK housing, lead instead to a stronger and better system in the end?

### **My top ten for challenges and opportunities runs something like this:**

1. For owner occupied housing, traumas in the financial services sector have led simultaneously to mortgage famine and a huge rise in property repossessions. Will our national obsession with home ownership now be moderated? And will we evolve better arrangements for preventing and mitigating risk for both borrowers and lenders in the future?
2. The sudden growth of the private rented sector – now owned by 1.2 million landlords – raises the question of why there is no long term, stable, institutional investment in the PRS. And it also turns the spotlight onto the absence of regulation in this now highly significant sector.
3. The impending dramatic reduction in public spending means the large-scale – but still inadequate – resources from the Homes and Communities Agency have a limited life. Will necessity be the mother of invention in the quest for alternative routes to housing investment?
4. The parlous state of the house building industry and the collapse in market-driven house-building opens the way for new approaches to secure an adequate supply of new homes. Have we learned that issues of land ownership and control are central and that providers outside the marketplace – with planners at the centre – need a more powerful place in creating the homes and communities for tomorrow?
5. Social housing stands accused of reinforcing and perpetuating social divisions and inequalities. At the same time, there is a growing realisation that housing providers can be part of the solution to a range of social problems. Will the pressures of tackling homelessness and meeting acute need overwhelm the requirement for sustainable, mixed-income housing?
6. Will the antipathy toward Westminster reinforce the cross-party political consensus for decentralisation and an increased role for local authorities? Does this mean a reversal in the thirty year decline of council involvement in housing?

7. The connections between housing and climate change are emerging as an increasingly significant theme for public policy. Will this lead to greater opposition to new building or an understanding of the importance of new and existing housing for reducing CO<sub>2</sub> emissions as well as addressing the hardships of fuel poverty?
8. Devolution of housing responsibilities to new national administrations in Scotland, Wales and Northern Ireland are providing fresh ideas and new approaches. What can the UK as a whole learn from these deviations from the standard Whitehall norm?
9. With housing associations buffeted by financial constraints and critical of oppressive bureaucracy, and with both transfer organisations and ALMOs demonstrating significant successes, what's next for the Third Sector in UK housing?

10. Dramatic change in the demographic profile of the UK – with huge growth in the numbers of older and much older people – demands a rethink of standard models of provision. Are we ready to reinvent retirement housing?

Now may be the moment for radical reform, using the current financial and Parliamentary negatives to propel significant improvements to all aspects of this country's housing provision.

Twenty-five years ago the National Housing Federation brought together a group of key people, led by the Duke of Edinburgh, to review British housing and recommend a package of changes. It is my hope that the BSHF's Consultation at St George's House will draw out new solutions to the huge challenges facing the UK housing system.

June 2009

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# 1. Where are we now?

## UK housing trends, prospects and issues

Steve Wilcox, Professor of Housing Policy,  
Centre for Housing Policy, University of York

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**This paper provides an overview of some key trends and issues for the UK housing system.**

Harold Macmillan famously remarked when asked what was the most difficult part of this job as Prime Minister, ‘events, dear boy, events’. The past two years has seen a surfeit of events that have badly shaken the financial and housing markets in the UK. At a moment like this it can be difficult to make sense of the changes that are taking place. Drawing extensively on the UK Housing Review 2008/09<sup>1</sup>, and work towards the 2009/10 edition, the paper summarises key trends in the UK housing market, and outlines some key current and future challenges for housing policy.

### The current UK housing market

With the advent of the credit crunch it is now clear that 2007 was the peak year in the latest housing market cycle in all countries and regions of the UK. By then house prices had risen to unprecedented levels relative to incomes. However this partly offset (and fuelled) by lower interest rates; but nonetheless by 2007 mortgage costs for first time buyers had, on average, risen to just over a third of individual full time earnings;

the same level as in 1990 at the peak of the last housing market cycle.

Whilst affordability declined across the UK, some local areas have faced particularly acute affordability pressures. These include the coastal areas of South West England, attractive rural areas across England and, in particular, some areas of central London. However private rents were by 2007 substantially lower than the costs of house purchase. For Great Britain as a whole, rents for 2/3 bedroom dwellings in 2007 were only just over two-thirds of mortgage costs for a same sized dwelling<sup>2</sup>. While the new phenomena of buy to let investment in private rented housing had also contributed towards the rise in house prices, at the same time it revitalised the private renting market, and improved the availability and quality of dwellings available for rent, at the same time as pegging rental growth in line with earnings<sup>3</sup>.

A shortfall in housing supply in recent years also contributed to the tightening of the market in recent years, especially in south east England. There were also shortfalls in supply in Northern Ireland and Wales; but not Scotland (Figure 1). Mortgage advance to income ratios did increase in the years to 2007, but in the main this was a response to lower interest rates, with excessive lending ratios only at the margins. Of rather more concern was the high proportion of mortgage advances based on ‘self certificated’ incomes.

1 Wilcox, S. (2008) UK Housing Review 2008/2009, BSA and CIH.

2 Wilcox, S. (2008) Can't Buy Can't Supply: The affordability of private housing in Great Britain, Hometrack, London.

3 NHPAU (2009) Buy-to-let mortgage lending and the impact on UK house prices, NHPAU Research Findings Number 1.

**Figure 1: Declining crude household dwelling balances**

The credit crunch has led to a collapse in the housing market, and a wider economic recession. The sharp reduction in funds for mortgage advances, and the more restrictive terms on which they were offered went hand in hand with a fall in house prices, and a rise in the level of repossessions. The Council for Mortgage Lenders initially predicted that there would be around 75,000 repossessions in 2009, although subsequently this figure seems over pessimistic with lower interest rates, lender 'forbearance' and the pre action protocol combining to keep the rise in repossessions in check<sup>4</sup>.

### Current UK housing policies

As house prices began their sharp upward rise in the decade to 2007 the government responded by increasing the funding for new affordable housing, although especially in England there was an even greater emphasis on promoting an increase in low cost home ownership opportunities. However this in turn was offset by a decline in levels of right to buy (RTB) sales, accentuated by regional and local cash limits on maximum discounts. Caps on RTB discounts did not, however,

apply in Scotland, except for new tenancies subject to the Scottish 'modernised' right to buy which also set basic discount rates at between 25 percent and 35 per cent depending on the length of tenancy. An economic assessment suggests that this policy provides a broadly neutral approach for sales to sitting tenants with security of tenure and entitled to sub-market rents<sup>5</sup>.

### Housing needs, homelessness and lettings

Scotland has also pursued a distinctive policy in providing a more extensive framework for homeless households, while in England and Wales there was a greater focus on making effective use of the private rented sector, with the aim of reducing levels of homeless acceptances, and the numbers of households in temporary accommodation. However, while the proportion of social lettings made to homeless households was higher in Scotland than England and Wales, the proportion was even higher in Northern Ireland not least because of the more severe housing market affordability pressures accentuated by the sharper rise in house prices south of the border.

4 Council for Mortgage Lenders (2009) First Quarter repossession figures, <http://www.cml.org.uk/cml/media/press/2262>

5 Wilcox, S (2006) A financial evaluation of the right to buy, in Wilcox S, UK Housing Review 2006/2007, CIH and CML.

At the end of 2006, 90,000 homeless households were living in temporary accommodation in the UK, of which almost 5,300 were in bed and breakfast accommodation. The overall figure represented a modest reduction and whilst the numbers in bed and breakfast accommodation have been declining in England and Wales, they have not in Scotland.

The number of lettings to new tenants by local authorities and housing associations in England fell from 266,000 in 2003/04 to 222,000 in 2006/07 despite the increase in the level of new build completions of social sector rented dwellings over those three years. There have been similar sharp declines in Scotland and Wales but a more modest decline in Northern Ireland. This trend is linked to the cyclical impact of worsening affordability of private housing and the long-term reduction of dwellings under Right to Buy.

### Stock condition

Throughout the UK there was also a significant increase in levels of investment to improve the quality of the council housing stock. Alongside that increase in public funding there were also, in England, Scotland and Wales, significant levels of stock transfer to new landlords that provided access to private funding for further investment in stock improvements. Over a

million council houses in England have now been subject to stock transfer in the years since 1998/99, with a further 93,600 dwellings transferred in 2007/08. To this can be added the 117,000 dwellings transferred in Scotland, and the 32,000 dwellings in Wales transferred since 2003.

Changes in the condition of housing stock can be tracked through a number of different measures. The broad picture is of continuing improvements in stock condition in all four UK countries; but it is difficult to gauge the extent of improvements, as definitions of housing conditions and standards differ both between countries, and within countries over time. Progress continues to be made in reducing the number of homes in all tenures in England that fail to meet the Decent Homes Standard; albeit that the target to ensure that all social sector dwellings achieve that target by 2010 will not be completely met. Challenging targets have also been set in Scotland and Wales to improve the social sector housing stock to meet their respective (and higher) stock quality standards. Inadequate thermal efficiency is the most common reason for failing to meet the quality standard in each country.

A common feature of stock condition in all four countries is that poor energy efficiency

**Table 1: English Housing Conditions – the Decent Homes Standard: Percentage of non-decent homes by year<sup>6</sup>**

	1996	2001	2003	2004	2006
<b>Social sector</b>	52.6	38.9	35.3	31.3	28.7
<b>Owner-occupied</b>	39.7	29.2	27.7	26.6	24.0
<b>Private rented</b>	62.4	50.7	47.5	42.6	40.4
<b>All tenures</b>	44.7	33.3	31.2	29.2	26.8

6 Wilcox, S. (2008) UK Housing Review: Table 23b, <http://www.ukhousingreview.org.uk/>

is the most frequent reason for dwellings to be judged to fail the relevant Decent Homes or quality standard. Similarly policy in all four countries focused more on improving conditions in the social housing sector than on improving conditions in the private sector, with a particularly low level of funding for private sector improvement grants in England.

### Social inclusion

Much recent housing policy debate has focused on the issues of social polarisation and exclusion, with particular concerns about concentrations, and even ‘cultures’, of worklessness on isolated social housing estates. While these are important issues recent research has found little evidence to support the notion that there is some pervasive link between social housing provision and cultural aversion to labour market participation<sup>7</sup>.

In this context it should also be noted that the proportion of working households resident in, and moving into, the social rented sector has remained relatively stable since 1990. Previously it had fallen sharply in the 1980s, primarily as a result of the Right to Buy. However while the RTB led to an increase in the extent of tenure polarisation, this needs to be distinguished from neighbourhood polarisation.

Notwithstanding the post RTB increase in tenure polarisation it nonetheless remains the case that the majority of low income households continue to reside in the private sector, with some ‘half the poor<sup>8</sup>’ being low income home owners. This is not the result of low income households moving into home ownership, but rather of adverse financial changes of circumstances impacting on households after they have become home

owners, whether as a result of unemployment, loss of earnings, accident, sickness, divorce, separation or simply retirement.

### Help with housing costs

There is significant variation between the tenures on their respective levels of taxation and subsidy. The abolition of mortgage interest tax relief for home-owners in 2000 significantly reduced the longstanding fiscal bias in favour of owning rather than renting, which was one of the factors in the continuing decline of the private rented sector in the UK during the twentieth century.

However, there is a continuing, but less pronounced, fiscal bias in favour of home-ownership, notwithstanding the simplistic focus in some quarters which argues that landlords are favoured because they do get mortgage relief on their interest costs. The relative tax position of the two tenures needs to be seen in the round; not just in terms of one single component. Home owners continue to benefit from capital gains tax relief, and the absence on any tax on the rental value of the ‘benefit in kind’ they gain from the use and occupation of their home (which was historically subject to Schedule A tax).

The system for local authority housing finance is under review in England, and this carries potential budgetary implications for Scotland and Wales. However, current cash ‘bricks and mortar’ subsidies to council housing are very limited and are forecast to end in England, with the sector moving into net overall surplus. This reflects the low level of investment in the council sector over the last three decades, when the overwhelming majority of new social sector housing (and the subsidy that goes with it) has been

<sup>7</sup> Fletcher D R, Gore T, Reeve K, Robinson D. (2008) Social housing and worklessness: Key policy messages, DWP.

<sup>8</sup> Burrows R and Wilcox S (2000), Half the poor, Council of Mortgage Lenders.

routed through housing associations. The council sector as a whole has significant benefits arising from the low historic costs of past investment; with a large portion of the associated debts having in turn been reduced by receipts from local authority house sales. This has enabled rents to remain substantially below economic value, and in Scotland council housing finances have also been significantly improved with the introduction of the prudential borrowing regime. The impacts of that change have been far more prescribed in England and Wales due to their redistributive national subsidy regimes.

### Prospects and issues

The most recent Budget report, delivered in April 2009, predicted that the UK economy would contract by 3.5 per cent in 2009<sup>9</sup>. Recovery of the UK economy was predicted to begin in late 2009, followed by growth in 2010 and strong growth in 2011. Projected increases in public sector borrowing received considerable attention. Public sector net borrowing is now projected to increase from 6.3 per cent of GDP in 2008/09 to 12.4 per cent of GDP in 2009/10. UK government debt is set to rise to well above the (more slowly rising) EU average. This is likely to have a significant impact on public spending over the medium term.

Housing was one of the few areas to receive new funding commitments in the Budget, as part of the government's response to the post credit crunch housing market and economic collapse.

#### These included:

- £600 million funding to build more homes by unlocking dormant building sites;
- continuation of the stamp duty holiday

for houses under £175,000 until the end of the year;

- £100 million for local authorities to build new energy efficient housing;
- £80 million to extend the HomeBuy Direct scheme.

However once economic and housing market recovery is underway there is a very big question mark over the future level of government funding that will be available to support housing programmes; whatever the outcome of the next general election. Those financial constraints will inevitably make it difficult to respond to the housing policy challenges in the years ahead.

### Future prospects and issues

Post the credit crunch there is likely to be a rather more tightly regulated regime for mortgage lenders; with the detail of the possible regime changes currently under review. Whatever the detail of the regime it is highly likely that in the future access to 100 per cent (or even 90 per cent plus) mortgages will become far less common. Access to savings and inherited wealth will be just as much as a barrier to home ownership as access to sufficient incomes to pay a mortgage. This has implications for inter generational social mobility, especially for the sons and daughters of tenant households, and poses different questions for policies intended to support access to home ownership for households with moderate incomes.

The slower economic growth, and likelihood of slower house price growth, also raises questions about the future prospects for the private rented sector. The rapid growth over the last decade took place in uniquely favourable circumstances, and without the

9 HM Treasury (2009) Budget 2009: Building Britain's future, [http://www.hm-treasury.gov.uk/d/Budget2009/bud09\\_completerreport\\_2520.pdf](http://www.hm-treasury.gov.uk/d/Budget2009/bud09_completerreport_2520.pdf)

prospects of such substantial capital gains going forward, and the continuing underlying fiscal bias in favour of home ownership, there can be no certainty that the sector will continue to grow.

The 2006 based demographic projections will need to be reviewed as a result of the impact of the credit crunch. However those projections already assumed some decline in levels of net inward migration, and on any likely scenario new housing output needs to rise to well above the levels achieved in the years before the credit crunch. Going forward this is a challenge for all the regions of England and Wales; only in Scotland would previous levels of output be sufficient to keep pace with household growth.

However if there is some uncertainty around the precise numbers of new dwellings required, there is far greater certainty about the age composition of the growing numbers of households. Longevity, divorce and separation combine to make older

households (65+) the largest part of overall household growth. High household growth does not equate to more first time buyers, and housing and planning policies need to recognise this.

And because of previous decades of growth in home ownership, the proportion of older households that are home owners will continue to grow at the same time as we have seen a decline in the entry rate of younger households to the tenure. As a result almost all of the growth in the numbers of older households will be of home owner households, and post 2016 most of the growth of older households will be those aged 75+, with an associated rise in the number of households that will require some form of support. Planning and housing policies will in consequence need to provide for an increase range of private sector and mixed tenure forms of supported housing, including shared ownership for home owners in low value dwellings that could not afford to move into a private sector leasehold scheme.

## House prices and the UK economy: an overview with three scenarios

Stephen Spratt and Josh Ryan-Collins, nef  
(new economics foundation)

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**This paper examines how house prices might react to three plausible macroeconomic scenarios. The negative outcomes associated with each scenario suggest that action is required to create a more sustainable, balanced and equitable approach to housing in the UK.**

The UK's housing sector is characterised by volatility: waves of booms and busts in house prices are fuelled by highly-regulated (inelastic) housing supply combined with deregulated credit-driven (pro-cyclical) demand. As we confront what may be the worst economic downturn since the Great Depression of the 1930s the UK economy and its housing sector will be severely affected.

### Three possible scenarios

Uncertainty is a perennial feature of economic forecasting, but this is massively compounded by the current economic situation. With this caveat in mind, we consider three possible scenarios. In each case, we examine the likely path of house prices at the national level and indicate their possible impact on economic and social outcomes.

For the purposes of our three scenarios we assume that the stock of housing is effectively fixed because very little increase in housing supply is expected in the short to medium term. The differences in our scenarios are consequently due to changes

in factors driving demand. Assuming continuing low real interest rates and stable demographic factors, our key drivers in the scenarios are: a) incomes, b) credit availability and c) price expectations.

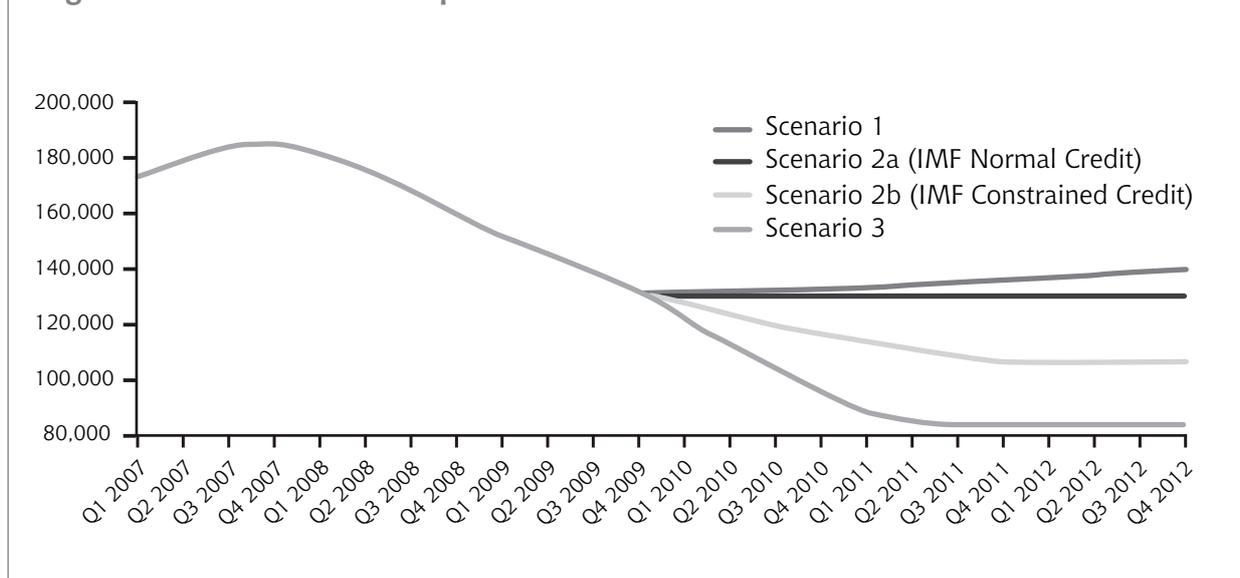
### Scenario 1: A rapid return to 'business as usual'

In the 2009 Budget, the Chancellor outlined what many commentators considered to be a relatively optimistic view of the UK's economic prospects to 2011. The Treasury (HMT) forecasts a sharp contraction in GDP of approximately 3.5 per cent in 2009, with positive growth starting in 2010 and rising to 3.75 per cent in 2011. Following a sharp decline in house prices in 2009, HMT predicts a return to an upward trend in both house prices and the house price-earnings ratio from 2010 and to 'normal' credit conditions by 2011. Were these forecasts to be accurate, and growth in 2012 was maintained at 3 per cent, we could expect to see average house prices<sup>10</sup> move broadly as shown under scenario 1 in Figure A. Scenario 1 would also see the house-price/earnings ratio begin to rise again from 2011 as the 2009 Budget explicitly assumes.

The house price-earnings ratio<sup>11</sup> has fallen considerably as a result of the crisis, improving overall measures of affordability (assuming normal credit flows resume). However, if house prices start to rise at a faster rate than incomes once again this trend will reverse leading to a number of negative outcomes. Access to 'public goods', such as good schools, transport links and health facilities are capitalised in house prices; therefore only those who can afford to pay high prices can access the highest quality of

<sup>10</sup> The house price data in this report is drawn from the Nationwide House Price Index.

<sup>11</sup> For this ratio we follow the practice of the UK Treasury and use the CLG/Halifax/Nationwide measure.

**Figure A: Evolution of house prices under three scenarios**

these public goods<sup>12</sup>. A rise in price-income ratios may see individuals seeking to take on high levels of debt in order to secure home ownership in the expectation of higher prices in the future. Rising debt would make households and hence the overall economy more vulnerable to economic shocks. A persistent trend of rising house prices is also equivalent to a redistribution of wealth away from non-home owners (generally younger cohorts) to owners (generally older cohorts) as well as from lower income groups to higher income groups.

### Scenarios 2a and 2b: Serious recession, with economy 'resetting itself' at a lower level

Our second scenario is based on forecasts from the International Monetary Fund (IMF)<sup>13</sup>. The IMF takes a more pessimistic view of the UK's prospects than HMT, forecasting a contraction of 4.0 per cent in 2009, and a further contraction of 0.4 per cent in 2010. In keeping with this more pessimistic view, we assume GDP 'growth' is

zero in 2011 but returns to positive territory in 2012 with growth of 1 per cent.

Figure A illustrates the potential impact of these forecasts on house prices in the UK with two contrasting trajectories. Scenario 2a assumes a return to 'normal' credit conditions by 2011; here we see average house prices stabilise at around £130,000 before beginning to rise again as earnings grow from 2012 onwards. Scenario 2b, in contrast, assumes that access to credit remains constrained, leading house prices to fall to around £110,000.

Where credit remains constrained, the combined effect of falling house prices and a tightening of credit conditions would be reduced consumer spending and increased saving, lowering demand for goods and services. The result: falling profits and falling employment leading to lower household income, consumption and further property price falls. Given the role of expectations in driving house prices in the UK, this contraction of demand could lead to house

12 Gibbons, G., and Machin, S. (2008) 'Valuing school quality, better transport, and lower crime: evidence from house prices', Oxford Review of Economic Policy, Vol. 24, Issue 1, p2.

13 IMF (2009) World Economic Outlook: Crisis and Recovery, <http://www.imf.org/external/pubs/ft/weo/2009/01/index.htm>

prices falling considerably below what would be expected if supply and demand factors were the only considerations.

Such an outcome would see large numbers of people falling into negative equity as well as sharply increased repossessions due to higher unemployment and lower incomes. The Financial Services Authority (FSA) has predicted that a 30 per cent fall in house prices could lead to 2.5 million households and 500,000 buy-to-let mortgage holders being in negative equity by 2010.<sup>14</sup> Using the Council for Mortgage Lender's (CML) calculations this could lead to around 210,000 repossessions.<sup>15</sup>

Homeowners have become reliant on capital gains as way of funding home improvement, retirement and other expenses.<sup>16</sup> For older people in particular, who may have seen the value of their pensions significantly reduced by the collapse in stock markets, falling house prices and/or negative equity could have a significant impact on their retirement options. A long period of falling land values would have a disastrous effect on the construction sector which, in general, is heavily indebted and has little incentive to build while land values are falling. In contrast to these negative effects, scenario 2 could see increased affordability for first-time buyers in terms of price-to-income ratios. However, if we assume reduced access to credit, the net impact on affordability may be limited.

### **Scenario 3: Economy remains in a recession/depression for a number of years**

While scenario 2b assumes reduced access to credit, it is in the context of a recovering economy with rising output, employment and earnings. This is by no means certain, particularly when we consider the necessary deleveraging of the financial sector and the deflationary forces this may set in train.

Deflationary pressure could lead to a process of 'debt-deflation', where a rising burden of debt weighs on the economy and deflationary expectations are built into lending and investment decisions<sup>17</sup>. In a debt-deflationary environment, the real value of debt<sup>18</sup> increases even when nominal interest rates have been slashed to zero, further encouraging homeowners to sell at depressed rates and feeding the debt-deflation spiral<sup>19</sup>. In this scenario we make two key assumptions. First, that the economy continues to contract through to 2012, though at a diminishing rate<sup>20</sup>. Second, that the availability of credit 'resets' itself at a lower level than under the previous scenario, such that only a historically average price-earnings ratio of 2.5 can be supported<sup>21</sup>. These assumptions, which are by no means implausible, could lead to very sharp falls in house prices, possibly falling to half their 2007 levels by 2012.

A 60 per cent fall in house prices could lead to almost five million households falling

14 Financial Services Authority (2009) Financial Risk Outlook 2009, page 34, [http://www.fsa.gov.uk/pubs/plan/financial\\_risk\\_outlook\\_2009.pdf](http://www.fsa.gov.uk/pubs/plan/financial_risk_outlook_2009.pdf)

15 Author's calculations, available in full report.

16 Tatch, J. (2009) Homeowner housing equity through the downturn, CML Housing Finance, Issue 01, April 09, <http://www.cml.org.uk/cml/media/press/2225>

17 The Debt-deflation hypothesis was first suggested by Irving Fisher in 1932; more recently Nobel Prize winning economist Paul Krugman has warned of the dangers of debt-deflation.

18 Falling prices means that money is worth more, i.e. its purchasing power is greater. Unfortunately, however, the same is true for debt: falling prices means that the real value of debt rises. In contrast, inflation leads to a reduction in the real value of debt.

19 The most worrying parallel for the UK here is Japan, which became stuck in a deflationary cycle following the bursting of an asset bubble in 1989. The country saw price declines of between 50-90 per cent (depending on the region) over a 15-year period.

20 Contraction of 4 per cent in 2010; 3 per cent in 2011 and 2 per cent in 2012.

21 We make a similar assumption under scenario 2b, but assume that the price-earnings ratio 'resets' at the slightly higher level of 3.0.

into negative equity and over 415,000 repossessions (using CML/FSA calculations). A vicious circle (lower demand → prices → output → employment → incomes → demand) would occur under this third scenario. At the same time, levels of real indebtedness would rise as prices fell creating immense hardship. The social and economic consequences of this scenario would be severe, surpassing those that might occur in scenario 2.

### **Concluding remarks**

None of the scenarios considered in this paper can be considered 'desirable'. A return to 'business as usual' implies the resumption of previous trends of widening inequality (in terms of both incomes and access to public goods) and indebtedness. In the more optimistic of our second scenarios we also assume a return to normal credit conditions. Given the scale of the global financial crisis this seems highly unlikely, particularly given the likelihood of much more stringent

restrictions on the leverage that financial institutions are able to take on.

This leaves us with the more pessimistic scenario 2b or scenario 3 as the most likely outcomes. Neither looks appealing. Both would require significant intervention by government and a fundamental reshaping of the UK housing sector. This may well be inevitable, in which case clinging to an unreasonably optimistic view of the timing and shape of the UK's economic recovery could prevent actions being taken now to both lessen the pain and to ease the transition to a more sustainable, balanced and equitable approach to housing in the UK. In this paper, we have focused on what is, rather than what could be. Very soon, however, the more fundamental question of what should be done will have to be asked and adequately answered.

Adapted from: nef (forthcoming) House prices and the UK economy: An overview with three scenarios

## Future tenure mix and flexible tenure

Peter Williams, Independent Consultant and Honorary Professor, University of York

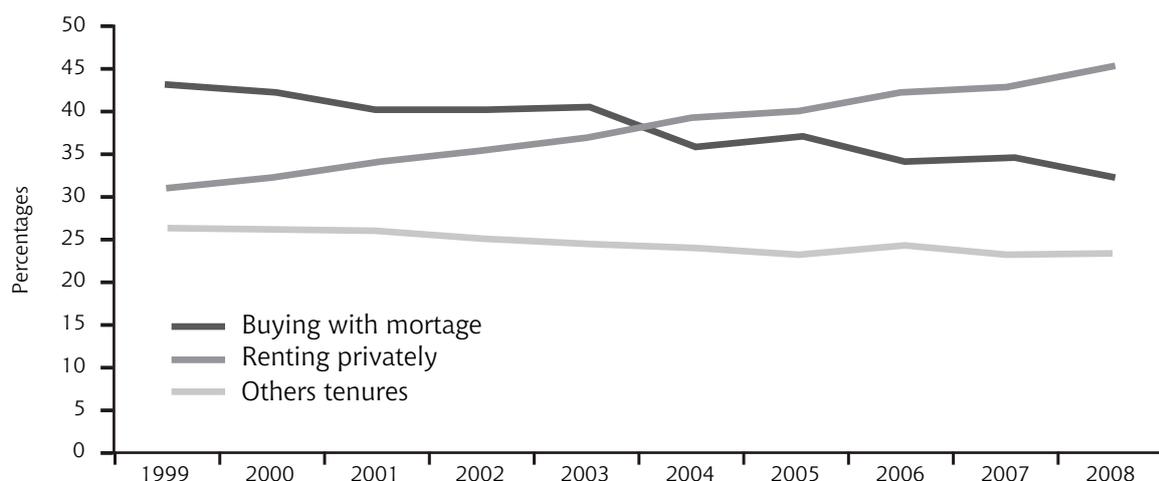
**Home ownership has been declining in recent years, a trend that will continue. Although the private rented sector could form part of the response to this, flexible tenure is something of a holy grail and the search continues for suitable mechanisms.**

### Context and recent tenure trends

1. There are two simple points to make at the outset:
  - The number of home owners and the percentage share have declined recently <sup>22,23</sup>;
  - The preferences and behaviour of younger households have shifted in recent years.

2. The credit crunch is exacerbating these existing trends. It is:
  - producing a shortage of mortgage finance. Bank lending is down 40 per cent, building societies 60 per cent and specialist lenders down 90 per cent;
  - making whole markets are currently almost non operational – Buy to Let and Non Prime;
  - constraining the numbers of first time buyers through tighter credit controls;
  - severely limiting the ability of non prime borrowers to remortgage and for prime borrowers who face credit difficulties to move into the non prime market.
3. It is likely that this shortage might exist for up to five years. We can expect there to be tighter controls on high loan to value lending and on some product types, although we have yet to see the regulatory response to the current crisis.

**Figure 1: Trends in tenure of households with Household Reference Person aged less than 30, England, 1999 to 2008<sup>24</sup>**



22 The focus in the note is on England although the same agendas apply across the UK.

23 Communities and Local Government (2009) Live Table 801: Tenure Trends, <http://www.communities.gov.uk/documents/housing/xls/141491.xls>

24 Source: ONS, Labour Force Survey

4. The upshot of this will be less mortgage finance and more expensive mortgage finance. Mortgage rationing has a downward pressure on house prices<sup>25</sup>.
5. The government has been working with banks to increase the flow of mortgage finance. To date the impact of this has been limited but the government-backed banks have promised increased funding. This might take the volume in 2009 up from a negative net -£25bn to perhaps a positive net £25bn. This is still well below market normality – which might be considered to be net £80bn.
9. The policy aspiration to get home ownership in England to 75 per cent now looks unrealistic although it should be noted that this figure is already exceeded in relation to older age groups (and regions/countries). It is likely that home ownership will be 'wound back' in a number of countries so the UK will not be an exception.
10. The growth of home ownership was a key instrument in widening the distribution of wealth and creating opportunities for lower income households. The contraction of home ownership will impact upon that and home ownership may become a clearer fault line again in the distribution of income and wealth.

#### Future tenure patterns

6. All of this suggests that despite the government's efforts (including various HomeBuy schemes) the aggregate level of home ownership will continue to fall - perhaps to 65 per cent.
7. Despite the contraction of the Buy to Let mortgage market this would suggest the private rented sector is destined to grow and compete more strongly with home ownership.
8. The working assumption here is that although a case can be made for the expansion of social renting, for a number of reasons this is less likely. This is particularly true in terms of a major programme of expansion but there is real potential and value in the social sector having a clearer and permanent 'safety net' role with respect to re-purchase of homes from the private sector.

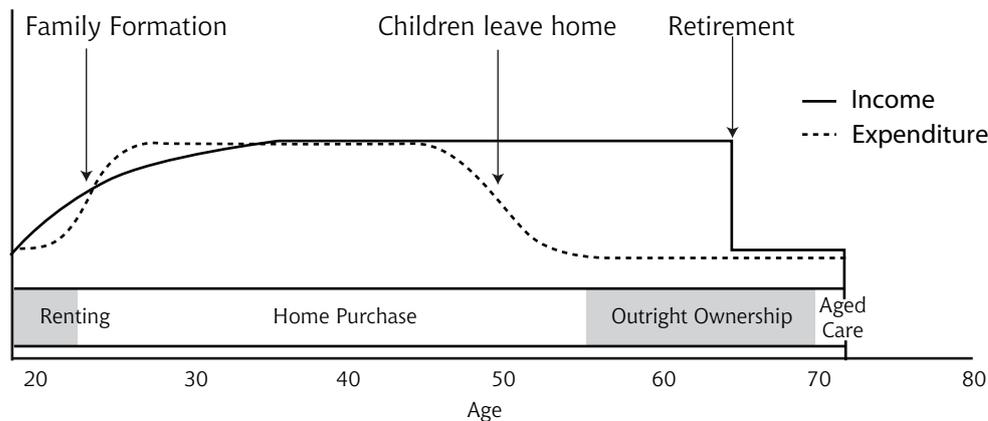
#### Flexible tenure – a way forward

11. In all of this a lot of attention has been focussed upon more flexible tenure as a way forward. This reflects changing lifestyles as much as the credit crunch/recession<sup>26</sup>.
12. We can expect to see more movement between tenures over the life cycle. If we then add the more constrained mortgage market to this picture we may see more households spending longer in rental homes both at the start of and during their independent housing career. We may also see more mortgages into retirement and more 'concealed' households as children spend longer in the parental home. All of this suggests a future quite unlike the past where the UK was noted for early household formation and early entry into home ownership.

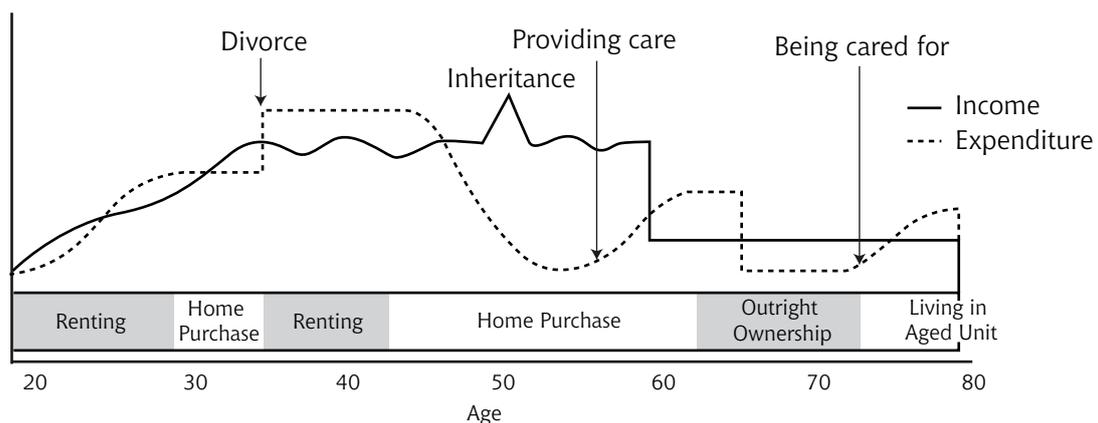
25 NHPAU (2009) Housing Requirements and the Impact of Recent Economic and Geographic Change, <http://www.communities.gov.uk/documents/507390/pdf/1221553.pdf>

26 Beer, A. (2008) Myth Busted? Australians and their Housing in the 21st Century, Seminar Presentation, Australian Housing and Urban Research Institute, Melbourne.

**Figure 2: Family life cycle and tenure – the past**



**Figure 3: Family life cycle and tenure – the present and the future**



13. How then might we best manage this new appetite and need for flexibility? There are a number of possible strands and all need some careful thinking through as to role/scale/cost etc. The current range of options include:

- **Rent to Mortgage/Rent to Homebuy:** mechanisms to help bridge renters into owning. The latter scheme recently introduced by the Homes and Communities Agency has many appealing characteristics – effectively offering renters an option to buy.
- **Shared ownership/Shared equity:** further and now conventional mechanisms for easing entry to home ownership. The current schemes are confusing and not well understood either by consumers or lenders. The latter are concerned about both the risk characteristics of shared ownership lending (high LTV) and the regulatory capital consequences. In the US there is also a community shared equity model where the equity is retained by the community. This helps ensure more long lasting

- benefits from such schemes. Both CLG and HCA are currently reviewing the low cost home ownership programme with a view to sharpening the rationale and the product offer.
- **Mortgage guarantees:** not used a great deal now in the UK but up to 1980s were widespread and are still very common in other countries as a means of helping support high LTV borrowing. The government is currently exploring this option.
  - **Family guarantees/Joint purchase:** again used in the UK but not widespread. To characterise and generalise, we have asset rich and increasingly cash poor parents and relatively income rich and asset poor children - how might this be exploited further?
  - **Mortgage products:** a variety of products have the potential to help ease access to home ownership over time including interest only mortgages, Islamic home finance products, linked saving and loan products, offset mortgages and linked ISA mortgages. In other countries it is possible to draw down on pension contributions to help this bridging function.
14. The options listed above are associated with helping people buy homes. Although there have been modest flexible schemes to assist going the other way – from owning to renting – the numbers remain very small. This is also true of Home Reversion schemes (where homes are sold to investors but the former owner lives on in the home) which are long established but have been overtaken by equity release mortgages as a way of extracting value from the home.
15. The current re-purchase schemes offered by councils and housing associations are quite limited and typically discretionary. As such they have little impact in the market and do not in any way help underpin lending. More thought needs to be given as to how to do this so that more flexibility is introduced alongside a clearer backing to the market and there appears to be an emerging appetite for this.
16. Most households adapt in a range of ways (trading down/moving) with relatively few to date wanting to stay in their homes as tenants. This has been the case with mortgage rescue schemes though in both Scotland and England much more fully thought through schemes are now in place and deserve consideration in this rather different context.
17. Intermediate renting and ownership is now a key plank in policy – sitting between full market ownership and full social renting. It is seen by many as the ‘subsidy lite’ option which offers a middle way. Certainly it offers a way in – the issue with all such policies is how it functions over the long term. Access is only part of the issue and exit needs to be an explicit part of the policy agenda unless the aim is to create a new tenure or tenure structure.

## Trunks, tails and elephants: the economic case for a modern housing policy

Duncan Maclennan, Director, Centre for Housing Research, University of St. Andrews

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### **Housing policy must combine macroeconomic, environmental and social policy concerns to build a balanced housing system.**

#### **Housing is a big system**

This paper focuses on the role of housing in the macro economy. Housing commonly absorbs a fifth of household incomes, comprises the main component of both household assets and debts and has significant implications for employment and labour mobility. Housing outcomes directly impact the major goals of governments, including environmental sustainability, social cohesion and economic competitiveness. This 'large and significant system' view of housing should prevail in policymaking with an evidenced awareness of housing markets' impacts on concerns such as greenhouse gas emissions, the long term distribution of wealth and the integration of visible minorities.

Housing is not just a big system; it is also a sticky one, with spillovers, lags and recursive effects across a range of key sectors and systems. Market failures as well as bureaucratic limits are inevitable in shaping housing systems and the policy challenge is not to select some pure policy ideology but the most effective, if still flawed, mix of what works.

#### **Policy paradigms emerging**

Old market vs. non-market arguments have been overtaken by events, and there is now

a need not just to re-regulate housing finance systems but to address core issues in the housing systems that have channelled boom and bust time and again in the last forty years.

Throughout the '80s and '90s many governments moved to reduce overall budgets, especially around social spending and moved away from active interventionist housing strategies. However, owing to worsening housing outcomes, by the end of the '90s, most OECD countries were back into the housing policy with the exception of Australia and Canada, both of which came back later and in a more modest way. The newer housing policies that emerged in the late '90s were different in a few key ways: they were generally broader in scope looking for improvements in neighbourhood sustainability as housing was developed; they sought to specifically address homelessness; they pushed risk out to non-government agencies; and they increasingly aimed to address the non-shelter as well as shelter needs faced by low income households in disadvantaged areas. In order to do this effectively, more horizontal linkages between governments at all levels, the health sector, community agencies and others are needed. In order to make housing policies effective, new institutions and a new working philosophy that integrates goals and resources are needed.

Most countries are still a long way from an integrated system that could achieve these goals. Macroeconomists are still trying to steer the economy without an understanding of the housing system, i.e. pulling the trunk of the elephant while social policy and housing affordability specialists grasp the tail and try to tweak the economic levers to achieve their aims. There is seldom mutual understanding of shared benefits or cooperation to achieve

mutual goals. The paper makes a case for a more integrated approach seeking to understand changing housing markets and economies concurrently with national and city level housing systems. Housing systems are local in nature but the economic systems and circumstances that affect them often are not, i.e. interest rates, globalization, supply response times and labour availability.

### **Globalization changed everything**

With globalization came economic growth and jobs. Globalizing cities had to grow to respond and remain competitive. Housing shortages were created as the nature of business changed and local governments moved quickly to re-tool for new opportunities. But globalization also brought marked gaps in income inequalities in the new economies created. Lower income households generally did not share in the economic growth and their incomes remained relatively flat while housing costs increased. Shortages of land in the growth economies only exasperated this problem. The housing system was now strongly affected by systems outside of a nation's borders. The subprime mortgage crisis which started in the US but spread quickly to all OECD countries is a perfect example of economic systems that did not respect borders. Reductions in housing value, consumption changes and changes to lending practices all very quickly shifted housing markets.

### **Growing need for data standardisation**

Given the kind of house price instability we are now facing and its role in housing affordability, existing research practices to compare countries are no longer helpful. Increased standardisation across markets is needed to capture outcomes experienced by different nations in responses to economic change. Without more carefully standardized

measures, it is not possible to properly assess housing markets in OECD countries. Globalization was experienced differently by OECD countries over the past decade, but, there do seem to be some similarities. All countries have had, until the downswing in 2007, real house price increases of at least 25 per cent with the majority experiencing increases over 50 per cent. Price changes are linked more to fundamentals than to economic "bubbles". Shocks in demand affect different metropolitan and regional economies at different points in the cycle. Global changes in demand vary depending on the tax structures of the nation. The kind of new financial sector regulation adopted by OECD members will also affect outcomes. Each will be also affected by supply elasticity, land availability, infrastructure and labour markets. The kind of national housing policies created in response and the planning regimes in place will be key determinants of the competitiveness of a place, and they should be used as a variant to measure and understand housing markets.

### **Effects on the economy**

House price changes affect the homeowner's net worth, their ability to borrow and spend, and the revenues of local governments and business. They may be detrimental to wider economic performance. This volatility also affects individual stress levels and wellbeing, the ability of children to have a sense of security and learn, the ability to work, healthcare costs, and so forth, all of which have impacts on a nation's economic competitiveness. Housing affordability and supply can affect productivity by changing a region's ability to attract immigrants and to support an adequate labour supply. Growing income and wealth inequalities will result as renters find their choices more limited and this

too will affect the nation's economy. Increasing land prices will limit people's choices on where to live which will affect transit time, time with family and carbon emissions. The delivery of macroeconomic policy, regional and local programs, the cost of health and security and education programs are all affected by the supply of affordable housing.

### **Younger households**

Already the homeownership rates among 25-34 year olds has significantly dropped, as has the rate of household formation. Most countries are facing growing issues around the quality and supply of their rental stock, particularly given the move away from homeownership by the young (and others) coupled with banks' growing aversion to 'risky' lending. Stagnant incomes among low income households, caution around homeownership and an aging rental stock will put increased demand on new rental supply.

This will result in less choice and higher costs for low income households.

### **New thinking for new times**

If social and economic policy is to be based on assumptions about how 'income classes' are likely to accumulate wealth over time, the disconnecting flows from renting to owning will confound such expectations. The paper calls for new ways to share, as economies recover beyond 2010, housing and land asset gains among low income and social tenants with stagnant incomes in order to raise social mobility and prevent permanently reinforcing separate trajectories for the wealth for rich and poor. And a more balanced approach to tenures and more equal taxation of housing will be key issues for the next decade. Housing policy advocates will be called on to provide new ideas to suit new realities and cannot rely on old arguments for more of the same.

# Where do we want to be?

## Decent housing for all

Diane Diacon, Director, Building and Social Housing Foundation

### Everyone should have access to decent housing ... a broader perspective

Asking the question “how should we improve our housing system” provokes an almost limitless range of responses. At the heart of virtually all of these responses is an understanding and agreement that everyone is entitled to access to decent housing; this includes both those who are alive today and future generations.

Adequate housing or shelter is one of the most basic human needs. This is reflected in the Universal Declaration of Human Rights which states that everyone has the right to housing in order to achieve a standard of living adequate for health and well-being<sup>27</sup>. The Declaration uses the term ‘adequate’ to describe a minimum standard. This has commonly been superseded in general discussion by the term ‘decent’. Housing is not a discrete social or economic issue, but rather is intimately linked with every other aspect of human life, supporting and enabling access to other rights such as education, employment and social support. It has enormous implications for local communities and society as a whole, as well as for the individual. Political parties of all persuasions

recognise the centrality and value of having a decent place to live<sup>28,29,30</sup>.

With thirty years experience of identifying good housing practice globally, including through the World Habitat Awards, BSHF recognises that decent housing should:

- Provide safe and durable shelter from the elements;
- Be sufficiently affordable that other basic needs can be met;
- Provide secure tenure without fear of eviction;
- Have access to clean water and sanitation;
- Be large enough for the household;
- Be environmentally sustainable;
- Offer access to livelihood opportunities and health and education provision;
- Promote a sense of safety, well-being and belonging.

Whilst the above list should not be seen as defining decent housing, it does help us to see it in a broader context, as well as highlighting the many different aspects of its provision and possible conflicting priorities. Is the role of housing simply that of providing a decent place to live or does it also have a role as a vehicle for generating income and building assets? How will the ways we currently build and live in our homes impact on future generations? How will we ensure that our increasingly older populations have access to decent housing and care?

27 United Nations (1948) Declaration of Human Rights, Article 25 (1)

28 Department for Communities and Local Government (2007) Homes for the Future: More affordable, more sustainable, <http://www.communities.gov.uk/documents/housing/pdf/439986.pdf>

29 The Conservative Party (2009) Strong Foundations: Building Homes and Communities, [http://www.conservatives.com/News/News\\_stories/2009/04/Shapps\\_launches\\_radical\\_new\\_housing\\_policies.aspx](http://www.conservatives.com/News/News_stories/2009/04/Shapps_launches_radical_new_housing_policies.aspx)

30 Liberal Democrats (2009) Policy: Communities, <http://www.libdems.org.uk>

Unlike many other countries in the world, housing in the UK is typically safe and durable with good water and sanitation provision. There are however many other aspects where the expectations of decent housing fail to be met for all our citizens. Affordability is still a key area of concern across all sectors of society and the need for environmentally sustainable housing, i.e. ensuring the opportunity for future generations to have an adequate standard of living, is only now beginning to be addressed. For many marginalised groups living in the UK, overcrowding and the threat of eviction are daily realities and in some areas of our cities there is little sense of safety or well-being.

The current financial crisis reminds us that the housing system in the UK is part of both a global economy and a global housing system. The UN Special Rapporteur on

Adequate Housing, Raquel Rolnick, recently suggested that global housing policies are fundamentally flawed and that the underlying causes of the mortgage crisis and the resulting global financial crisis must be examined to assess their impact on the right to adequate housing. She advocates the adoption of human rights-based public housing policies which support access to adequate housing by different means, including through alternatives to private mortgage and ownership-based systems and through the development of new financial mechanisms and tenure arrangements<sup>31</sup>.

Learning from others and sharing experience is vital as we look to reshape the systems and processes by which we finance, construct and live in our homes. Agreement that everyone should have access to decent housing could, and should, be the first step in improving the housing system in the UK.

31 UN Human Rights Council (2009) Report of the Special Rapporteur on adequate housing as a component of the right to an adequate standard of living, and on the right to non-discrimination in this context, page 8. <http://www.unhcr.org/cgi-bin/texis/vtx/refworld/rwmain?docid=49a54f4a2>

# How can we get there?

## Improving the supply of affordable rural housing

Stuart Burgess, Chair, Commission for Rural Communities

**The lack of affordable housing continues to be the most pressing problem faced by rural communities and the recession is creating new barriers, but creative action could begin to tackle this problem.**

For most of the 9.5 million people who live in rural England, it is a wonderful place. People are generally healthier and children tend to do better at school, but there are also huge challenges. Poverty is rising faster (by 3 per cent over the last two years compared with 1 per cent in urban areas) with around one in five rural households now living below the poverty line, and the lack of affordable housing continues to be the most pressing problem faced by rural communities.

### The recession and the impact on affordable housing supply

The recession and credit crunch have affected the cost and supply of housing in both rural and urban areas but there is growing evidence that the problems faced by lower income rural households in finding an affordable home are actually worsening.

In 2008, median house prices in rural areas fell by 6.8 per cent, similar to decreases in urban areas, but this masks some important differences. For example, the fall in median prices whilst significant in villages in sparse

areas (12 per cent) has been considerably lower in villages in less sparse areas (2 per cent). Across all rural areas, households need nearly ten times their income to purchase an average priced house, compared with eight times their income in an urban area.

The increase in the level of minimum deposit required, now generally around 20 per cent, is adding to problems with affordability. In some cases low-cost home ownership is no longer available as lenders are not extending mortgages to properties where conditions to safeguard supply of affordable housing prevent resale onto the open market. Housing associations are therefore increasingly not building homes for low-cost ownership, but solely social rented housing, leaving an intermediate income group without opportunities to find a home.

At its most extreme, the impact of the recession is seen in a rise in homelessness. In December 2008 the percentage of registrations of people unintentionally homeless as a result of repossession had risen in rural areas to 5.1 per cent compared with 4 per cent in urban areas.

### Building out of the recession?

The economic downturn is placing changing pressures on the supply and demand for affordable housing. But we should also explore the opportunities that the current economic climate offers in making a long-term difference. Small developers are buying up sites and are keen to work with housing associations to build affordable housing. Similar opportunities are also available to

housing associations and local authorities – where funding is available.

Planning authorities have a key role to play. Many of those following a policy of urban concentration and development of larger urban sites now find that their targets are being missed. A change in approach to identify and bring forward smaller rural sites would take advantage of current market conditions to the benefit of those needing affordable housing.

Government, through the Homes and Communities Agency (HCA), could build on these opportunities by providing funding for housing associations to purchase sites either for immediate delivery or to ‘land bank’ as part of a future development pipeline. This would complement the greater flexibility recently introduced which has resulted in a rise in grant rates on rural schemes. The HCA also has a role in formalising arrangements to provide ‘buy-back’ funding on rural properties where there is a perpetuity agreement. This could encourage lenders to start extending mortgages with lower deposit requirements knowing there will be repayment of debt in the case of default.

Without this type of intervention the lack of affordable housing in rural areas is likely to become more acute, hastening the loss of young and economically active people with adverse impacts for local businesses and the future sustainability of rural communities.

### **Creating sustainable rural communities**

As Matthew Taylor’s report to the Prime Minister titled ‘Living Working Countryside’ has highlighted, the provision of affordable housing and jobs in rural areas is vital to help create and maintain vibrant rural communities. The CRC endorses this view and it is clear that there is now a national consensus supporting this approach, with government (in March 2009) agreeing to nearly all of the recommendations made.

The recession and credit crunch give even greater urgency to the need for a positive approach to rural areas by regional and local decision makers, and communities themselves, promoting sustainable rural communities. The immediate outlook may be bleak, but with creative thinking and government backing, real steps can be taken to tackle the longstanding problems.

## Live-work: a route to encouraging more sustainable rural communities

Stuart Burgess, Chair, Commission for Rural Communities

### Live-work and home working are fundamental to reducing the cost of rural living and key drivers of the rural economy<sup>32</sup>.

Overall (in both urban and rural areas) more than three million people work from home which represents 11 per cent of the workforce<sup>33</sup>. This trend is increasing naturally but may be accelerated further by recession. The growth of the live-work<sup>34</sup>/home working sector is having and will have significant implications for the volume, flexibility, design and tenure of rural housing supply.

At least one third of rural businesses are now run from home and this can have multiple benefits including job creation, efficient land and energy use (dual use of a single property), work-life balance, enabling local spending and helping to sustain local services and businesses. A second and increasingly common variant is 'Home Working' for an employer. In many instances these home workers receive financial and practical assistance with equipping their home to work in this way. This

may grow significantly during the recession as employers seek to cut workplace costs and employees look to reduce costs of commuting. Wider benefits include reducing congestion and lowering CO<sub>2</sub> emissions.

A third group of people is often overlooked for their potential to live-work – those families on low incomes where one partner goes out to work and is the single earner while the other, typically, remains at home to look after the children. There is a particular challenge for the Homes and Communities Agency (HCA) in responding to the needs of rural people on low incomes in social housing who wish to work from home.

It takes very little to design and equip an affordable house with a small work area with built-in shelving and a fold down work surface. It is more important and cheaper still to equip each new affordable rural home with an IT facility that not only enables the person at home to 'connect' to part-time (home) work and enables the home worker to look after their children while working. This facility would reduce social isolation by enabling access to employment, training and distance learning and in due course to the community intranets now emerging in many villages. For all three sectors of home workers greater and more efficient digital connectivity could act as a means of increasing inclusion and reducing isolation.

32 This paper contains the emerging thoughts of the CRC; it is not at present the Commission's settled policy position.

33 Office for National Statistics (2005) Labour Market Trends: Home based working using communication technologies, [http://www.statistics.gov.uk/downloads/theme\\_labour/LMT\\_Oct05.pdf](http://www.statistics.gov.uk/downloads/theme_labour/LMT_Oct05.pdf)

34 Live-work may be defined as occurring where people make a conscious decision to work from home and to equip and adapt it for this purpose.

## What role for the public sector?

Pete Challis, National Officer (Local Government and Housing), UNISON

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**History teaches us that, over the last century, local authorities have repeatedly played a radical and critical role in improving housing conditions and in meeting the nation's housing needs, a role they should play again to address current problems.**

2010 marks 125 years of council housing. Initially local authorities introduced basic levels of sanitation, and improved the terrible conditions of the Victorian period. The almost uncontrolled growth in towns, and the unfettered powers of private landlords particularly with regard to rent levels, meant that housing provision was expensive and rudimentary in the extreme, and led directly to the most appalling squalor and, inevitably, social malaise and unrest.

Local authorities became the agents of change, building good-quality, decent housing at a price that most could afford to pay. Soon they were offering millions of families a secure home – a base from which they could develop and plan and begin to see a future, for both themselves and their children. Councils brought order and hope, to what was chaos and disrepair. In both the post war periods and since then local authorities raised standards (e.g. internal toilets and bathrooms, central heating, space standards). From those early days there has always been a sense of moving forward – building more, building better, building for the particular needs, finding better ways

of doing things, improving sustainability, increasing energy efficiency.

Fast forward to the new housing crisis today: there are one million fewer 'social housing' homes today than in 1979 and significant issues of disrepair in the private rented and owner occupied sectors. The private sector, as it did at the turn of the last century, has shown that it is incapable of meeting the nation's housing needs or ensuring that all homes are well maintained:

- Given current replacement rates every new home built today will need to last for 1,200 years;
- The level of supply is wholly inadequate, space standards of new housing are the lowest in Europe;
- The wrong mix of homes are being built;
- Private developers are resistant to changes that are needed to achieve energy efficiency, quality and sustainable construction and modern space standards;
- Quality is critical – only 18 per cent of the new affordable housing built by housing associations since 2006 was classified by CABE as 'good or very good' and 21 per cent – almost one in four homes – was 'poor'.

The nation's housing difficulties will not be solved without public sector intervention.

Intervention in supply, with local authorities building significant numbers of new council homes again, to new sustainability and quality standards in terms of building materials, construction, energy efficiency and space standards, would provide competition on quality and standards for housing

associations and the private sector to show what can be achieved.

Developing a role for the public sector will require answers to a number of key questions:

- What role should public sector intervention play in better regulating and enforcing standards of design, construction and maintenance in the private sector?
- What planning horizons do we need?
- How can the national and local state ensure that the financing of private sector supply incorporates provision that enables proper maintenance to be undertaken and modern standards to be secured?

## The mutual approach to housing and housing finance

Adrian Coles, Director-General, The Building Societies Association and Chair, Commission on Co-operative and Mutual Housing

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**The failure of the markets in so many areas over the last 18 months, and the unpopularity, and expense, of state-aided solutions has, in the minds of many, created an opportunity for mutually and co-operatively owned institutions to prove that they can succeed where their more conventional competitors have failed.**

The key advantages of mutually owned institutions are well known. They are owned by their members, who are usually also their customers. There is no conflict with external shareholders, who do not exist in the mutual model. Building societies, for example, are generally (although by no means always) able to offer lower mortgage rates and higher savings rates than their competitors because they do not need to pay dividends to shareholders. Not under daily pressure from a volatile share price they are also able to look at a longer term perspective. Earlier this year, for example, Moneyfacts research showed that building societies occupied 11 of the top 12 places in the tables for the six best paying cash ISAs over the last 18 months and the six best accounts for the previous 36 months.

Similarly, market research undertaken by the BSA shows that consumer perceptions of standards of service in building societies are much more favourable than their perceptions of the service they receive from banks. On treating customers fairly, trust, offering value for money and customers' willingness to

recommend their institutions to their friends and family, there is a substantially better performance by building societies than banks. They also have a much better record of keeping branches open than do banks, and a much lower level of residential mortgage arrears than other lenders. Generally, (although with certain notable exceptions) societies have followed a much more prudent business model.

Another feature of mutuals is their commitment to the community. Both large and small mutuals tend to have a better understanding of their local housing, savings and mortgage markets than those institutions more open to the influence of the global money markets.

A final important feature is that societies are democratically controlled. Building societies, for example, voluntarily give members a vote on the directors' remuneration report. Can we imagine the outcome if bank customers were given such a say! This constitutional feature – member democracy – means that mutuals of all descriptions are more likely to look after their customers than PLCs – the staff know that when they serve a customer, they are serving an owner of the business. Better pricing, concentration on the customer, an understanding of local markets, a more prudent approach, and democratic control all seem very welcome at a time when many institutions have failed to exhibit such characteristics.

Building societies have been successful in the housing finance market, recovering well from what can now be termed, without fear of contradiction, as the demutualisation disaster of the late 1990s. In the housing field, however, mutually owned housing has never

realised its potential; although very successful in some Scandinavian countries, in the UK the mutual sector accounts for only 0.1 per cent of the total housing stock. Nevertheless research undertaken for the Commission on Co-operative and Mutual Housing shows evidence of mutually – collectively – owned housing being more popular than other forms of ‘renting’, with higher service standards, greater ‘tenant’ control, and most importantly

higher levels of satisfaction. Diversity is a feature of the sector with over 500 different organisations each meeting the needs of their members in different ways.

The next few years are going to be very different from the last few; we will need to look at different ways of doing business.

I expect the advantages of the mutual approach to become more apparent as we move through the recession.

## **Refurbishment of existing stock would benefit builders and the environment**

Richard Diment, Director General, Federation of Master Builders

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### **Transform the existing housing stock to build a greener Britain and create a valuable new market worth at least £3.5 billion per year.**

The UK needs to develop policies, skills programmes, and financial incentives to upgrade our existing housing stock to make it greener and more energy efficient. This low carbon refurbishment is crucial to ensure that the UK meets its commitment to cutting carbon emissions and will create a new market worth between £3.5 and £6.5 billion per year. A clear policy signal from government is urgently needed to kick-start this process.

#### **Low carbon homes**

With 27 per cent of the UK's CO<sub>2</sub> emissions coming from energy use in homes, action is needed in this sector if the national target of an 80 per cent reduction in CO<sub>2</sub> emissions by 2050 is to be met. Deep cuts in emissions from the housing stock are possible, but existing policies will not take us far enough. Work towards zero carbon new homes is important but will not be sufficient to meet this target. Refurbishment of the existing housing stock to advanced, low-carbon standards is needed as well.

A coherent strategy for the existing stock is required, mirroring the approach now being taken with new house-building. A long-term policy signal, with an ambitious future standard and intermediate milestones,

is needed to give the refurbishment sector sufficient confidence to make the necessary investments in training, skills, products and supply chains.

#### **Small builders**

The stakeholders involved in refurbishment are quite different from those involved in new house-building. Smaller construction businesses are typically involved in this repair, maintenance and improvement. Over £23 billion per year is spent on this type of work to existing housing, and much of this is a missed opportunity in terms of low-carbon refurbishment. Where owners are already undertaking works, construction firms need to be ready and equipped to offer low-carbon options as part of that service. This represents a significant new business opportunity for building firms, product manufacturers and product suppliers, worth between £3.5 billion and £6.5 billion per year.

#### **Buildability – building capacity to deliver low-carbon refurbishment**

For builders to deliver low-carbon refurbishments on a large scale, the sector's capacity to do this kind of work needs to be developed, almost from scratch. This is captured in the idea of 'buildability' – contractors have to be confident of their ability to achieve satisfactory results, both for themselves and for their clients. Without buildability, low carbon refurbishment is likely to be ignored or subverted on the ground.

Key elements of the 'buildability' idea are that building work needs to be made up of products and methods that have all of the following characteristics:

- **Practical** – solutions need to be relatively simple and quick to implement;

- **Replicable** – a refurbishment package needs to be something that can be installed many times over by the general population of installers;
- **Affordable** – unit costs may well come down over time and can be influenced by policy, but there is no point in promoting items at any given time which are out of reach of a viable market;
- **Reliable** – products and systems need to work well and be robust;
- **Sellable** – the costs and benefits to both customer and installer need to be readily understood;
- **Available** – specialist products that take weeks to order will not find favour among the mainstream: developing product supply chains is key;
- **Guarantee-able** – installers make their reputation on delivering things that work and abandon products or methods which lead to repeated call-backs and complaints;
- **Profitable** – firms need to be able to make a living from it.

This article draws on: Killip, G (2008) Building a Greener Britain - Transforming Britain's Housing Stock, <http://www.fmb.org.uk/news/campaigns/building-a-greener-britain/>

## The benefits of alternative home finance systems

Tarek El Diwany, Partner, Zest Advisory LLP

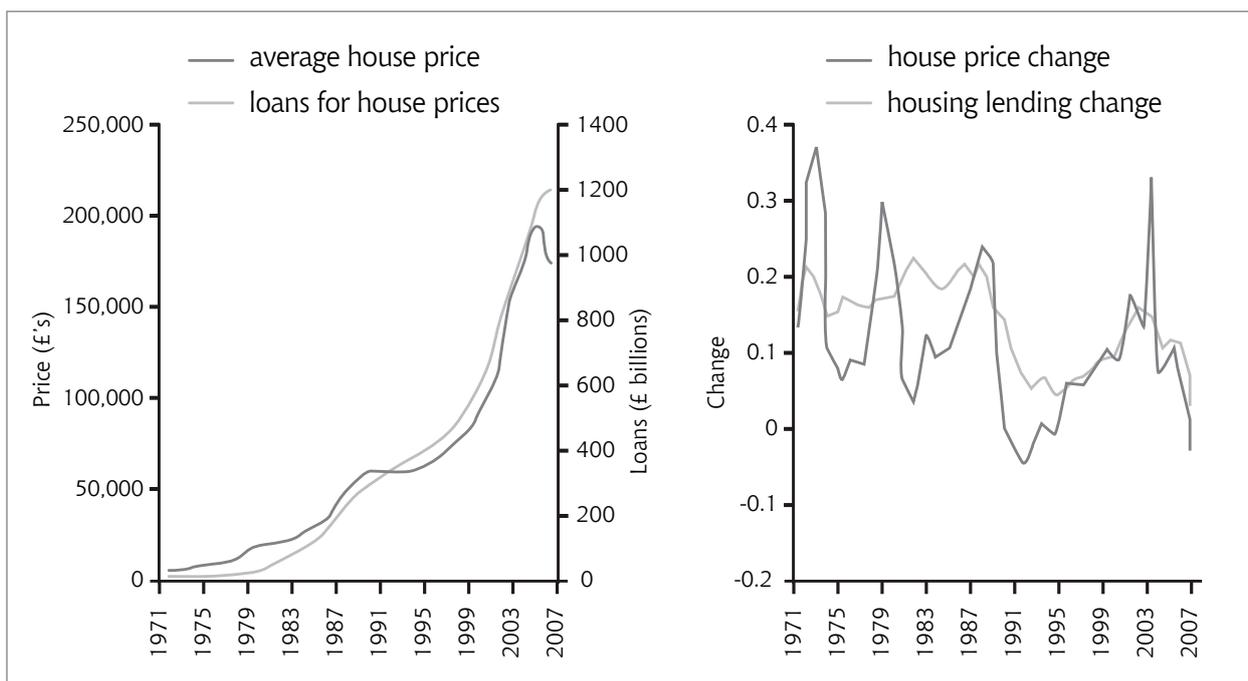
**Home-buyers who rely upon conventional financing methods must bear the burden of interest costs on money created out of nothing by the banking system. Alternative home financing systems based on interest-free money supply or risk-sharing partnerships would increase affordability, encourage stability and improve the quality of the built environment.**

### Money creation

The function of money creation in England was once the sole prerogative of the head of state and was exercised through the manufacture of gold or silver coins at the Royal Mint. From the late seventeenth century onwards, early goldsmith bankers assumed some of this function by issuing paper receipts in exchange for their customers' deposits of gold and silver coins. The bankers encouraged their customers to use these receipts as

money, a practice that was in due course widely adopted. Why go to the bank to withdraw coins, if shopkeepers would accept a paper receipt in payment anyway?

Soon the early banks began to offer their services to the public as money lenders, but when the public came to borrow money they would be loaned paper receipts, not gold or silver coins. From the perspective of the banks, such a policy had one great advantage: unlike gold and silver, paper money could be created in the back office at almost no cost. "The Bank hath benefit of interest on all moneys which it creates out of nothing", said William Paterson upon founding the Bank of England in 1694. The bankers argued that because the majority of depositors did not come to the bank to claim their gold in any one period, it would be safe to issue receipts in excess of a bank's gold stock. The reserve of gold to paper in issue came to be known as the "reserve ratio", and today many major banking organisations operate a reserve ratio of less than one twentieth. Hence "fractional reserve banking".





Rural charm gives way to corporate leverage. Two scenes from the same Essex village, 2005

Today's banking practices are more sophisticated than those of the goldsmiths, though the principles remain the same. Modern commercial banks create money by crediting the borrower with an electronic entry which appears on an account statement but, as with the early goldsmiths, both money supply and debt increase every time a loan is made. Commercial banks seek to maximise the amount of money created and loaned, in order to increase their interest income, and as they do so asset price inflation becomes endemic.

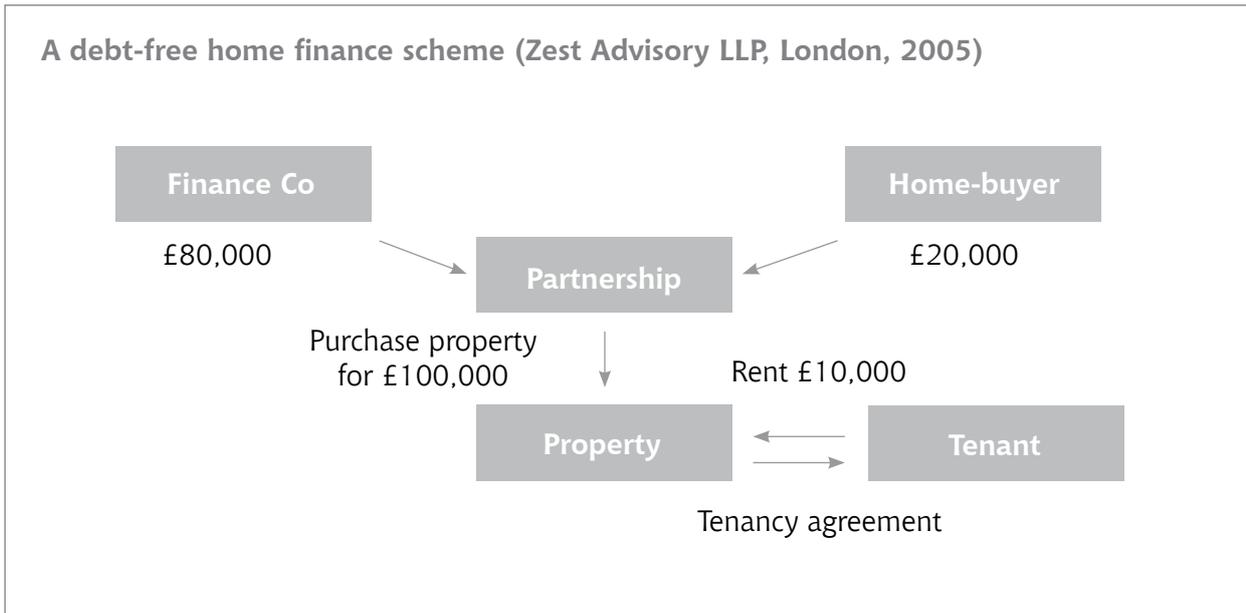
### Processes affecting the market

Processes affecting commercial bank lending into the residential property sector can be exogenous (for example a deregulation of the banking sector that allows a one-off increase in lending) or endogenous (for example the forecast performance of property prices impacts banks' willingness to lend, whilst willingness to lend impacts the performance of property prices). Both types of process can manifest themselves in the form of speculative booms and busts in the property market. It is sometimes argued that the

amount of bank lending into the property market is determined by the level of property prices, but an understanding of the money creation process indicates that the direction of causation is for the most part in the opposite direction. The graphs below show how bank loans and property prices have increased together over the last 40 years in the UK (left), and how changes in bank lending relate to changes in the average UK house price (right).

### Impact of interest on the built environment

The projects that are undertaken with interest-bearing money are very different to those that are undertaken with interest-free money. Let us compare two different housing projects, one to build a high quality house that will last for 100 years at a build cost of 1100, and the other to build a low quality house that will last for only thirty years at a cost of 1000. Both houses can be rented out at 150 per year for their respective lifetimes. If discounted cash-flow analysis is now undertaken to determine which of the two houses is more profitable to build, at a discount rate of 10 per cent



or more, it is the low quality house that is preferred. Yet, for a construction cost of only 10 per cent more, a house that lasts three times as long could be constructed. This financial driver is prominent in the developed world today because of the predominance of interest-based financing, and its failings are reflected rather clearly in the changing character of Britain's built environment. It is the architecture developed during the centuries in which the charging of interest was despised that attracts the modern tourist, not the anonymous housing estates spawned by modern debt financing. There is less scope for using skilled craftsmen and quality materials when one-third or more of a project cost goes to satisfying interest charges. Furthermore, the practice of financial leverage which is encouraged under the interest-based financial system has allowed a few large firms to dominate the sector. As small builders disappear, commercial decision-making becomes ever further removed from the communities that it impacts. The scale of projects becomes larger and variety is reduced.

### Alternatives to interest-bearing housing finance

One alternative to the home finance system described above would be to appoint an agency of government to create and loan money interest-free. Clearly this system would reduce the cost of home ownership dramatically and could arguably be managed in a more socially responsible way. Still more preferable is a system in which communities fund their home financing requirements through risk-sharing partnership schemes without the intervention of a money-creating intermediary.

In 2005 our firm developed a home finance product in which the finance company and the home-buyer establish a partnership through which to purchase a property. Each partner has a share in the partnership equal to its capital contribution, and over time the home-buying client can purchase some or all of the finance company's share at market value. In the meantime, the property is rented out to a tenant and the partners share the rental income pro-rata. The home-buyer has first choice to become the tenant in the property,

but is not compelled to buy the finance company's share of the property or to remain as a tenant in the property. Hence, under this scheme, the home buyer is never in debt, cannot suffer from negative equity and cannot be repossessed. The adoption of such financing techniques, in combination with monetary reforms limiting or abolishing the practice of fractional reserve banking, would encourage greater affordability and market stability and in the longer term would lead to substantial improvements in build quality.

This article draws on original material from El Diwany, T. (2003) *The Problem with Interest*, London, Kreatoc and <http://www.islamic-finance.com/>

## Development should benefit local communities

Alan Evans, Director, Centre for Spatial and Real Estate Economics, University of Reading

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**Successful reform of the planning system is needed to ensure that the housing market is flexible enough to respond to local demands and that local residents are compensated for the negative impact of new development.**

Most of the problems with the housing market – low supply, high prices, overcrowding – can be attributed to the planning system. A policy constraining land supply has led to the population being housed in homes that are on average smaller, older and more expensive than houses in other developed nations<sup>35</sup>.

In a country that was among the first to roll back the government's role in the economy, why do we still plan our housing in the way we do? Our current planning system is based on a number of folk myths like "Britain is a small, overcrowded country". In fact we are living in crowded and dense cities, not a crowded and urbanised country. Other folk myths that support the current system include "we need agricultural land to be self-sufficient" and "cities are bad for environment"<sup>36</sup>.

These statements are not supported by the evidence and there are also many positive reasons for changing our planning system. Rising house prices only benefit a small minority of the population – older homeowners who are trading down. Increases in land and

house prices also make it less attractive to work, live and do business in England. This has a long-term negative effect on growth.

In Ireland and Australia, with planning systems derived from the UK's, restrictions on the supply of land, densification policies and central planning fail to provide the kind of homes people want, and lead to high real house price inflation. Successful planning systems, as found in Germany and Switzerland, leave planning decisions to local planners and politicians while ensuring that they face the full costs and benefits of their decisions.

No-one wants a development free-for-all, but successful reform of the planning system must ensure that the housing market is flexible enough to respond to local demands and that local residents are compensated for the negative impact of new development. We therefore propose the following reforms to the planning system:

### 1. Greater flexibility

- Abolish the primacy of plan-led development, so that necessary development is possible even when it has not been anticipated.
- Introduce the presumption of a right to develop, so it is up to local authorities to show why development is undesirable.
- A greater recognition of the economic benefits of development as a material factor in the planning process.
- Introduce land buffers, which could be easily activated when more land is required.

35 For further details see, Bigger Better Faster More – Why some countries plan better than others, [http://www.policyexchange.org.uk/images/publications/pdfs/pub\\_39\\_-\\_full\\_publication.pdf](http://www.policyexchange.org.uk/images/publications/pdfs/pub_39_-_full_publication.pdf)

36 For a summary of the evidence see, Unaffordable Housing – Fables and Myths, [http://www.policyexchange.org.uk/images/publications/pdfs/pub\\_38\\_-\\_full\\_publication.pdf](http://www.policyexchange.org.uk/images/publications/pdfs/pub_38_-_full_publication.pdf)

- The planning system should be localised, putting communities in charge of their own development.
- There should be greater freedoms for property owners to switch between designated uses (commercial, residential etc).

## 2. Local government finance reform

- Local authorities should retain all existing Council Tax and business rate revenues.
- A proportion of income tax should be locally determined and kept by councils.
- Where possible, councils should derive 75 per cent – and not less than 50 per cent – of their funding from local sources.

## 3. Social Cost Tariff

We propose the introduction of a tax – the Social Cost Tariff – to allow communities to share in the benefits

of development. It has the following features:

- Worth a maximum of £500,000 per hectare, variable downwards for contaminated brown field land or if councils wanted to ‘go for growth’.
- Would replace all existing charges associated with development, such as Section 106 agreements.
- Should be entirely retained by local councils and used to enhance residents’ quality of life.
- Local authorities would be set minimum building targets by central government and would lose revenue if they failed to build up to the minimum.
- All revenues from development above the minimum level would be retained locally.

Adapted from: Evans, A. W. and Hartwich, O. M. (2006) Better Homes, Greener Cities, [http://www.policyexchange.org.uk/images/publications/pdfs/Better\\_Homes\\_\\_Greener\\_Cities.pdf](http://www.policyexchange.org.uk/images/publications/pdfs/Better_Homes__Greener_Cities.pdf)

## **Institutional investment in the private rented sector**

Ian Fletcher, Director of Residential Policy,  
British Property Federation

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### **Why is government considering institutional investment in the private rented sector now?**

The private rented sector (PRS) has made an immense contribution to the provision of housing in England over the past decade. Nearly one million additional households have found a home in the sector since 2000, more than owner-occupation and social renting combined. Such people have been accommodated mainly through phenomenal growth in buy-to-let, which has meant that despite strong growth in demand, strong growth in supply has kept rents generally in line with earnings growth.

Whilst buy-to-let has boomed over the past decade there has been a general reticence of institutions to invest in the PRS. Some institutions have dabbled in sub-sectors of residential investment, such as student halls, but institutional investment in mainstream private renting has proved generally elusive. However, as government and politicians face up to new housing realities, institutional investment in the PRS is under serious consideration.

Two significant announcements over the past month underline greater government interest in investment in the PRS. The first, by the Homes and Communities Agency (HCA), invites institutions to express interest in the development of housing fund(s). The second, by the Department of Communities and Local

Government (CLG), sets out the makings of a coherent strategy for the sector in reaction to last year's Rugg Review. Both are important if current interest from institutions is to be converted into investment.

Interest in institutional investment from the Homes and Communities Agency (HCA) reflects both current conditions and an eye to housing market recovery. One of the challenges large scale investors have faced is acquiring sufficient stock at a price that will make their returns stack up. Current market conditions mean that there are obvious opportunities for marrying up potential investors with excess house building stock.

Looking more towards recovery, buy-to-let has stimulated housing supply by pre-funding development and therefore lowering risk for house builders. With potentially a far more constrained mortgage market for buy-to-let looking forward, government is considering what similar role institutional investors might play in supporting housing development in the medium term.

The HCA, and indeed government, have other motivations for considering the potential contribution of institutional investment. It could act as an alternative source of finance providing greater variety on the supply side which might provide greater stability. On the demand side, expanding the provision of quality accommodation in the PRS is vital for households who are not eligible for social housing, but will not be able to access home ownership. All this presumes tighter conditions on how mortgages will be regulated in the future, both for owner-occupiers and buy-to-let. This is probably the biggest issue faced by the PRS. Tight regulation will increase demand and limit supply.

Whilst making some progress the government remains some way off a coherent strategy for the sector, with noticeably little support for private renting from departments beyond CLG. It is noticeable that most of the tax and benefit recommendations of the Rugg Review, administered by HM Treasury and the Department of Work and Pensions remain 'under review', whilst those of a regulatory flavour, administered by CLG, are in the file marked 'making progress'. For example, institutions have consistently asked for an end to the practice of aggregating stamp duty on portfolio purchases, ultimately meaning that they invariably pay 4 per cent, whilst a small investor will not pay anything on a property valued below £175,000 at present. This is felt to be grossly unfair and has a financial impact on what are often fairly marginal investment decisions, particularly in the current model proposed by the HCA.

Another issue which frustrates landlords of any size is direct payment of local housing allowance. If the government is serious about ensuring benefit tenants get a decent

property at a reasonable cost it should be trying to use LHA to encourage investment, not discourage it.

To conclude, it is worth managing expectations. Even if institutional investment in mainstream private renting was to double overnight, we are talking about growth of about £5 billion, which against the context of £200 billion plus in the sector from buy-to-let over the past decade is not going to crowd out individual investors. To meet demand arguably the sector will need both.

What institutional investment could offer, however, is service innovation, support for development and a contribution towards quality in the sector. The student market is a good comparator, with companies like Unite and Liberty having an impact far beyond their offer. Ultimately, the HCA initiative could raise £1 billion to £2 billion, which would be comparable to the amount of money that the government pledged to the housing sector in this year's budget, representing a considerable sum in these financially constrained times.

## Housing is a home, not just an asset

Alison Gelder, Chief Executive, Housing Justice

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**The change that could do the most to end injustice in housing is a change of mindset. This would be a move to think of the buildings we live in primarily as homes rather than as investments.**

When Housing Justice was launched in 2003, the charity's foundation was clearly articulated by Cardinal Cormac Murphy-O'Connor:

“To have somewhere we call home is a fundamental part of our human dignity. Home is the place where we build our families and find the space to develop alongside friends and loved ones. To be deprived of such a basic necessity is to feel less than human.”

The problems we face today have developed from seeds that were sown before the crisis. Our current situation has created a need and an opportunity to critically examine the justice of the way we organise housing at present. Within this, the needs of those who are poor and marginalised must be prioritised.

Matters have recently got a lot worse for those who were already experiencing the greatest difficulty. This includes the vast numbers of hidden homeless, people who do not have priority need status for social housing and those with no recourse to public funds (such as refused asylum seekers and some migrant workers). Wider problems resulting from repossessions, supply problems

and stagnation of the housing market are well known.

There are a number of places where there is injustice in the housing system at the moment and which are susceptible to change due to the current crisis.

- **The price boom has left some home owners with unearned assets.** These gains have resulted in an imbalance in the housing market and have skewed the distribution of assets in Britain. Analysis from IFS in 2002<sup>37</sup> suggested that younger people were twice as likely to have no assets in 1996 as in 1978. It seems likely that this trend will have increased during the house price boom earlier in this decade.
- **There are significant imbalances between the security offered in different forms of housing tenure.** The lowest cost tenures are the most secure and higher costs do not necessarily relate to lower risks.
- **Housing stock is not distributed according to need.** Some people have two homes while others have none. Overcrowding is a serious issue for many households but 47 per cent of one or two person households in England are under-occupying their homes<sup>38</sup>.
- **All the above, taken together, have created a set of closed systems in housing.** People are trapped by their tenure, by their location and by changes in the value of their housing investment unrelated to its value as a home. Movement between tenures has slowed

37 Banks, J., Smith, Z. and Wakefield, M. (2002) The Distribution of Financial Wealth in the UK: Evidence from 2000 BHPS data, <http://www.ifs.org.uk/wps/wp0221.pdf>

38 Communities and Local Government (2009) Live Table S190: Percentage of households overcrowded/under-occupying by region, tenure and household size, <http://www.communities.gov.uk/documents/housing/xls/139526.xls>

down to a trickle and so the systems are effectively closed<sup>39</sup>.

What are the changes that could be facilitated by the current crisis and that might remove injustice in the system?

- First of all, house prices are falling which should improve affordability for some people and allow them to enter home ownership.
- Secondly, the current climate opens the way for new thinking about the responsibility for providing new homes for and within communities.
- The third change is the possibility that the government will invest in house building and improvements to stock as part of the investment needed to get out of the current crisis.
- Fourthly, the stagnation of the housing market may begin to de-stigmatise both social housing and private rental.

Finally, the change that could do the most to end injustice in housing is a change of mindset. This would be a move to think of the buildings we live in primarily as homes rather than as investments. It is time to think of houses as somewhere to make a life, bring up a family, earn a living and play a part in a community. One step on the way to this could be to introduce a tax on gains in property values. This would limit the gains we could expect to realise from our houses and perhaps also limit house price inflation. Without a change of this sort we may, as a society, be condemned to chasing ever decreasing investment values and property profits in a society increasingly polarised by tenure.

39 Communities and Local Government (2009) Live Table S101: Trends in Tenure, <http://www.communities.gov.uk/documents/housing/xls/139262.xls>

## Should we be ‘going Dutch’ in social housing?

Vincent Gruis, Associate Professor of Housing Management, Delft University of Technology

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### **Deregulation of social housing in the Netherlands has brought significant benefits, but also a new set of challenges.**

#### **Social housing in the Netherlands**

When set in an international context, social rented housing in the Netherlands can be characterised by a relatively large share of the housing stock (35 per cent) and a wide diversity of dwellings and tenants. During the 1990s the social housing sector was subject to a policy of deregulation, decentralisation and privatisation. This resulted in a change in the role of housing associations, largely the sole provider of social rented housing; they are now private, non-profit institutions with public, social obligations.

Housing associations have now become more active in the provision of both owner-occupied and more expensive rental housing (the surpluses of which subsidise social housing). They are also more active outside the (physical) provision of housing, in particular working to improve the “liveability” of neighbourhoods, a prerequisite for improving the popularity and market value of their stock.

#### **Positive outcomes from current system**

The broad role of Dutch housing associations has helped to prevent stigmatisation and deterioration of social housing, as well as spatial concentration of disadvantaged households. It also helps to implement more comprehensive “place-based” policies to deal with wider social issues within and across neighbourhoods.

The large share of social housing providers can contribute to the moderation of rents through competition between non-profit landlords and private landlords. Housing associations in the Netherlands have also acted as a dampener for economic cycles, by continuing to invest when for-profit landlords decline to do so. And, importantly, social housing provision in the Netherlands has become relatively cheap for the taxpayer.

#### **Present challenges**

There are several wider issues facing housing policy in the Netherlands, including:

- the large and growing gap between renters and home owners;
- dealing with problematic neighbourhoods;
- transforming stock to improve environmental sustainability and meet the changing needs of the ageing population.

The Dutch social housing system is certainly not without problems. With housing associations positioning themselves as independent social entrepreneurs, operating between market and state, the government is questioning if and how it should influence their activities. It has also proved difficult to find arrangements that secure local accountability and at the same time leave enough space for independent and effective social entrepreneurship.

The diversification of housing associations therefore is not without its risks. Although there are several inspiring examples of housing associations that take on a broader role, there is a substantial difference between the front-runners and the rest of the sector.

#### **Conclusion**

The nature and method of Dutch social housing provision has had profound effects

on the role and outcomes of social housing. It is fit for a wide group of people, not just those with no other options. This is also an aspiration of many other countries. It must be borne in mind, however, that it was a century of substantial government support that allowed housing associations to develop into the asset-rich institutions they are now. Within the present neo-liberal policy setting, it seems highly unlikely that other governments would be willing to support their social rented sector to such an extent. Nevertheless, some elements of the Dutch system could be transferred to other countries for example by:

- having social housing organisations providing middle-class housing as well as enabling commercial landlords to provide social housing among others to prevent stigmatisation of social housing according to type of provider;
- enabling social housing providers to follow a more diversified portfolio strategy (by enabling sales, acquisitions and price diversification within their stock) and thus allowing them to finance their core stock with more profitable activities;
- not focussing solely on cost efficiency in financing, building and refurbishment of social housing, but also at the future value (and potential proceedings) from sales, thereby stimulating a more sustainable quality of social housing.

Furthermore, a strong social housing sector like the Dutch model can have many benefits, but has a variety of specific problems attached to it as well. The problems may well be outweighed by the advantages, but should not be ignored.

Adapted from: Gruis, V. (2008) A perspective from the Netherlands in Cowan, J. and MacLennan, D. (eds.) *Visions from Social Housing: International Perspectives*, [http://www.smith-institute.org.uk/pdfs/visions\\_sh.pdf](http://www.smith-institute.org.uk/pdfs/visions_sh.pdf)

## Act immediately to limit the effects of climate change

Tim Helweg-Larsen, Director, Public Interest Research Centre

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### **Only an ambitious new programme of change will deliver the reductions in carbon emissions from the built environment needed to achieve climate safety.**

Climate change is happening ahead of schedule. This suggests that the climate is more sensitive than we thought. As a society we are preparing for a medium-sized climate problem, despite evidence that points to the problem being greater than we had anticipated. We need to manage the risks of climate change responsibly by reducing atmospheric concentrations of CO<sub>2</sub> to the range within which we know that climate stability will be maintained.

The scale of the challenge is daunting. Even under optimistic assumptions, meeting it will require emissions peaking globally by 2015 or sooner, and unprecedented rates of emissions cuts. We must stop pretending that our current course of action will get us what we need. We need an ambitious programme of change, with sweeping changes in the way we insulate, heat and build our houses.

In the next two years the UK should cut its emissions by 10 per cent. Delivering short-term actions provides the essential foundation for mid-term policies and long-term targets. One suggestion for immediate action is a nationwide insulation and air tightness project<sup>40</sup>

– implemented through a scale-up of existing energy efficiency programmes, delivering high thermal standards to a specified proportion of the nation's building stock.

We should then cut our emissions as close to zero as possible over the next two to three decades, delivering a clear message of intent and urgency to the rest of the world.

The main challenge of zero-carbon housing does not concern new homes, but existing homes: 80 per cent of the homes we will inhabit in 2050 have already been built. Refurbishment of an existing home is estimated to produce around a third of the emissions of building a new one<sup>41</sup>. According to government estimates “the average existing home requires four times as much energy to heat as the average new home”<sup>42</sup> so it is essential that refurbishment of the existing stock accompanies the increasingly stringent in-use carbon emissions targets for new build.

An extensive study on how to achieve an 80 per cent reduction in emissions from UK housing by 2050 recommended:

- Minimum energy standards for homes at the time of sale or letting, based on Energy Performance Certificates;
- Solid wall insulation and other measures applied across entire streets at a time, reducing costs;
- Behavioural change driven by installation of smart meters and other ways of communicating energy information to building users;
- Urgent action to achieve immediate 3.7 per cent annual reductions from the

40 Energy Saving Trust (2003) Warm Zones External Evaluation: First Annual Report, <http://www.cse.org.uk/pdf/pub1028.pdf>

41 Empty Homes Agency (2008) New Tricks with Old Bricks: How reusing old buildings can cut carbon emissions, <http://www.emptyhomes.com/documents/publications/reports/New%20Tricks%20With%20Old%20Bricks%20-%20final%2012-03-081.pdf>

42 BERR (2008) UK Renewable Energy Strategy Consultation, <http://www.berr.gov.uk/files/file46799.pdf>

housing sector, the “first few years” being “critical to changing mindsets and the present flat trajectory”<sup>43</sup>.

These measures have the potential to reinvigorate the UK’s construction industry and to develop skills in sustainable building practices. Spending on construction in the UK is split roughly in half between new build and refurbishment. Refurbishment work is predominantly carried out by smaller firms. Changing the practices of these firms will be of critical importance in improving the environmental performance of buildings. The Federation of Master Builders’ call for a “Code for Sustainable Refurbishment”, with mandatory refurbishment standards consistent with an 80 per cent CO<sub>2</sub> reduction target by 2050, would provide much greater benefits than the government’s existing 2016 zero-carbon target for all new homes.

Timescales are important. The urgency of ensuring climate safety requires that current voluntary standards such as the Code for Sustainable Homes and Building Research Establishment Environmental Assessment Method for non-domestic buildings be made compulsory with standards set high and soon.

Current large-scale policy responses to the problem have failed to deliver the change we require, and indeed have failed to deliver emissions reductions at all. The UK Climate Change Act 2008 is a welcome step forward, but the situation we are in will require more ambitious action. To deliver the change we need we will have to overcome the social and political blockages which have kept us from addressing the problem.

Adapted from: Public Interest Research Centre (2008) Climate Safety: In case of emergency..., <http://climatesafety.org/wp-content/uploads/climatesafety.pdf>

43 Boardman, B. (2007) Home Truths: A Low-Carbon Strategy to Reduce UK Housing Emissions By 80% By 2050, <http://www.eci.ox.ac.uk/research/energy/downloads/boardman07-hometruths-execsum.pdf>

## **Innovations from below – new concepts for social housing?**

Thomas Knorr-Siedow, Senior Researcher, Institute for Regional Development and Structural Planning (IRS)

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### **Innovations in housing provision from civic society may provide solutions to the wider problems facing social housing across Europe.**

#### **The market and the emergence of new social housing models**

The backdrop for this paper is a dramatic quantitative meltdown of social housing and a cultural turn towards the general marketisation of housing in Germany. It has the underlying hypothesis that there is a special strength in the alternatives to traditional social housing that have emerged through civic self-organisation and new partnerships across society. Out of different reasons, not least the neglect of tailor-made solutions for the variety of home-seekers by the market and the withdrawal of state activities in housing provision, new socially sensitive housing models have emerged from various sectors of civic society. These models are currently filtering into public housing policies of individual states and municipalities and new local housing policy partnerships are being forged across the country. They might provide some answers to current societal developments and social housing needs in Europe.

#### **An alternative sector – market and social orientation**

In Germany – as in most other European countries – there have always been socially motivated housing alternatives to the market. But after a highly innovative phase during the

first third of the 20th century (the Bauhaus), housing innovations during the rest of the century came mainly from the public social housing providers. Self-referential and technologically oriented, they had little to do with the increasing individualisation of society and changing patterns of a post-Fordist society. With social innovations lacking in newly built mass housing, a flight from mass rental housing to uniform, smaller and ownership-oriented developments started – increasingly supported since the 1980s by the ownership-oriented ‘elevated social housing’ subsidies which are available to young lower middle class families with children, not to the poor. However, during the same time, three innovative strands of self organised housing evolved, in which the theories and practices of cooperative housing play an important role.

Historically the earliest were owner-occupied projects. Mostly built by affluent and ethically oriented groups, they provided their residents with space for communication and collaboration – and an added value above the single family dwelling.

An important strand of housing alternatives evolved after the massive squatter movement of the 1980s, which developed after the mid 1990s. Inner city vacancies developed as a consequence of demographic change and the publicly subsidised process of suburbanisation, especially in the east. In a grass roots political movement, students and young home-seekers took old buildings ‘into custody’ (instandbesetzen) and, after legalisation and mediation, converted blocks of flats or barracks into collective housing projects that have often provided the core of an independent neighbourhood culture with a wider impact than the individual projects. Since the reduction of building subsidies for

social housing since the 1990s, new mixed neighbourhoods have been mainly initiated by collaborations of home-seekers, critical architects and municipalities. Often dedicated to making use of inner city land vacated by industry or the military and to building new homes for those in housing need, innovative funding models were developed, that included self-using investors, renters and special needs groups, municipalities and funding organisations.

### **The infrastructural interplay supporting social housing innovation**

In Germany, three infrastructural strands have helped resident self organisation in housing to become a social initiative in its own right. Since the period of confrontation with the squatter movement in the 1980s, states and municipalities have built up supporting structures. Knowledge management and support for experimental projects play a role, like the stricter targeting of social housing funds – where they still exist – to collaborative

projects and social mix structures as in the 'Munich Model'. It links the promise of lower priced public building land to the builders opening up their premises to special target groups – e.g. single parent households, the elderly and special self-organised management arrangements. Also, increasingly private funding has opened up through an ethnic banking sector and other self help funding systems, like revolving funds. It is at least as important that the resident-organised projects themselves have generated offspring. At first mere mouthpieces of the 'movement', they have since developed into robust cores of independent knowledge management and strategic policy organs that can act in a balance with municipalities and the state. However, not all of the issues have been solved. Even though the self-organised housing sector is emerging from its experimental niche, the severe shortage of social housing in the growth regions cannot be overcome without additional political support – administered in a non patronising manner.

## No turning back to housing boom and bust

Toby Lloyd, Managing Consultant, Navigant Consulting

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### **We urgently need a new political economy of housing that will deliver a balanced mix in both supply and tenure.**

Housing is central to the British economy, and to the current crisis we are facing. It is now clear that the housing market has failed. A housing market bubble was artificially inflated by reckless mortgage lending, while housing policies and subsidies encouraged ordinary households to take on dangerous levels of debt in order to get onto the housing ladder. The bubble created an artificial sense of wealth that was used to compensate for relative wage suppression and a declining pension system as it encouraged people to borrow more against rising paper values of their home. In housing we see most clearly the overarching political story of the last 30 years: risk that was once socialised transferred to the individual.

The response to the banking crisis has been bold and dramatic, but the housing response has so far lacked direction and full recognition of the underlying causes. We urgently need a new political economy of housing, one that delivers financial stability, environmental sustainability and social equality. As ever, we need to intervene to make the market work effectively and save it from itself and its tendency to fail. More than anything we need pluralism, a balanced mix in both supply and tenure that can provide homes fit to live in, with real choices and security for all.

Rapid intervention and investment is essential to keep supply going, preserve jobs and provide a fiscal stimulus to the economy. The 2020 Group's recent call for major public investment in social housing construction must be answered. More fundamentally, we need a new mixed economy in housebuilding – the current model of speculative private development is broken. To increase supply, reduce volatility and provide real choices to individuals we need to ensure real diversity in housebuilding, with councils, housing associations, community groups and cooperatives, smaller building firms and self builders all contributing to a diverse and vibrant housebuilding sector.

The public sector as a whole needs to rediscover the skills and confidence to lead the market and shape development by providing infrastructure and strong, strategic visions for the places we want to create. We should learn from positive examples of housebuilding in Europe and our own past: long-term public land ownership is the key to providing quality homes in attractive places. Land is now cheap, but the market will not develop it – the public sector must step in to bring sites forward, retaining ownership to ensure a good return on public investment. Regulation is necessary to ensure quality and environmental sustainability, and to improve employment practices in the construction industry.

A stable and socially equitable housing market is possible, one which provides real people with real options about tenure by offering high-quality private renting, social housing and sustainable, affordable home ownership. Improving the quantity and quality of rented and intermediate options is essential, but we also need to reform home

ownership itself. To make home ownership sustainable and accessible to ordinary people we need to tame the market and begin to separate our need for decent places to live from our desire for financial investments.

To prevent future bubbles and share the benefits of rising property values more equitably we need to look carefully at the tax system, which encourages excessive lending and borrowing to buy homes. Gradually replacing the regressive council tax and business rates with a modest land value tax would help stabilise the market and remove the final vestiges of the poll tax. Allowances at the lower end and a right for pensioners to postpone some or all of their payments until their homes were sold would reduce the

tax burden on those least able pay and shift it away from ordinary households towards those with large amounts of landed wealth. We should start to shift taxes away from our effort and labour and towards taxation on unearned windfall gains like land values.

The crash provides a unique opportunity to start again. This crisis is too important to waste. Housing has been at the centre of the failure of our political economy for the last 30 years; there can be no turning back to housing booms and busts.

Adapted from: Lloyd, T. (2009) Don't bet the house on it: No turning back to housing boom and bust, <http://clients.squareeye.com/uploads/compass/documents/Compass%20Housing%20web.pdf>

## Delivering quality and choice in urban housing

Derek Martin, Director of Housing and Regeneration, Nottingham City Council

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### **Successful urban areas need quality and choice in housing options built on strong neighbourhoods.**

The urban areas of the UK have significant strengths, particularly their economic contribution in delivering employment, training and education. Urban flight and long distance commuting can mean that cities do not get the maximum benefit from their economic strength. To address this issue we need to get the 'urban offer' right. We need to give people the choice to stay in our cities. Ensuring quality and choice of housing is a vital part of this. In Nottingham City Council area, 73 per cent of our homes are below the average council tax band and there are only 90 properties in the top band. If people want to live in higher-end property they have to move out of the city. Building a good 'urban offer' is also about strong neighbourhoods, with high quality services like schools and transport, and wider quality of life, for example, through access to good quality green spaces.

To provide these strong urban communities there is a need for renewed focus on three broad areas: vision, balance and delivery.

#### **Vision**

Building successful urban areas will not happen without a clear vision of what we are trying to achieve. It needs to start with the question: What does this city need to be a great place? Transforming neighbourhoods is not just about providing piecemeal regeneration projects or

improving housing stock. That work needs to be fully aligned with wider strategies to improve other areas like schools, transport, employment and healthcare.

Not all neighbourhoods are the same. Targeted interventions are required to respond to the particular needs of a neighbourhood. In some areas the quality of housing stock is a major issue. In other areas the greatest need is for neighbourhood interventions to improve employment and education.

Local authorities have a vital role to play in this process of place shaping. Other organisations such as housing associations and ALMOs are key stakeholders in this process but do not have the influence on wider services that is required to transform neighbourhoods. In addition to the neighbourhood focus, there is also a need to influence the whole of the housing market in a conurbation through coordinated action between local authorities.

#### **Balance**

Balanced communities are a vital part of successful neighbourhoods. Monotenure neighbourhoods of any kind are not best for a city. We need to avoid concentrations of particular tenures, whether that is city centre flats, social housing or Houses in Multiple Occupation (HMO) for students. Neighbourhoods work best, and are genuinely sustainable, where there is balance between different types of tenure.

In some areas there is a need to influence the market to achieve that balance. The private sector does not always know best and local authorities need to use their place shaping role. Neighbourhood housing markets can become skewed by any one business model.

A classic example is large family homes being converted into HMOs for students. This business plan drives up house prices and can push other groups of people out of an area. Similar arguments apply to the development of city centre flats. We need to ensure that new developments are designed to build strong communities rather than just pleasing investors.

### Delivery

Delivering a good 'urban offer' will require:

- **Finance**

Funding is always an issue, particularly in the current economic conditions, but it should not dominate all other considerations. It is often better to work out what is needed for a particular neighbourhood and then look at how it can be funded. Good quality schemes with local support are much more likely to attract funding. Finances must always be

focused on delivering the highest quality possible. Achieving this involves careful thought about the business plan and a realistic assessment of the contribution and benefits for different stakeholders.

- **Planning**

The planning system needs to be strong enough to get good design and good quality that will build communities. Planning policy needs to be delivering the vision for what the city needs rather than just reacting to proposals on a case-by-case basis.

- **Management**

Proactive management of neighbourhoods is needed to make communities work. Intensive neighbourhood management, where required, rather than piecemeal management of properties will have to work across tenures (including owner occupation).

## It's time to redefine "social housing"

David Orr, Chief Executive, National Housing Federation

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### **The role of social housing needs to be driven by the wider principle of commitment to a vision of the good society.**

Europe's not-for-profit housing providers have a vision of decent and affordable housing for all in economically, socially and environmentally sustainable neighbourhoods where all can reach their full potential. But what role should social housing play in delivering the vision?

The activity of social housing itself needs to be redefined far more broadly if this objective is to be met, and the term "social housing" may no longer be adequate to describe this new, wider approach.

Looked at in isolation, there are a number of possible roles for social housing. Three might be described as economic, welfare and place. An economic model for the role of social housing might be described as a form of Keynesian demand management. However, if this is regarded as the primary purpose of social housing, decisions will be made that are designed to manipulate the market rather than to meet the needs of those who are excluded.

The current model emphasises the **welfare** role. It is concerned with ensuring maximum value for the public purse in terms of need assisted. Not intentionally, but inevitably, social rented housing is now seen as the housing of last resort, available only to those who can demonstrate that

they are needy. The welfare model of social housing has contributed to a deeply polarised housing market where the open market meets the needs of the wealthy, social renting meets the needs of the most socially excluded and economically vulnerable, and those on low-to-average incomes are increasingly squeezed.

A model based on the concept of **place** argues that social housing can be a critical tool for dealing with the consequences of imperfect markets to ensure that everyone has access to decent and affordable housing. The role of social housing is driven by the wider principle of commitment to a vision of the good society.

If we are to move towards the place model, policy choices and tools will have to be developed to support it such as:

- A move away from the belief that all social housing should be provided by social housing providers, and that social housing providers should only provide social housing;
- An understanding that social housing providers can, and should, be providing homes for market sale and market rent as well as homes for shared ownership and social rent – not least because without this the economics of the straight provision of social rented accommodation are punishing;
- A need to think much more creatively about changing tenure without having to move home.

This all implies that social landlords will become organisations far removed from their historical roots as single-focus providers of large-scale affordable rented housing (council housing) or as the fillers of the gaps

in provision for the most excluded (housing associations). They will do this not because they are social housing organisations but because they are agencies that have the personal, asset and financial resources, the organisational capacity and the opportunity to contribute to the creation of the good society.

This changed role will require:

- a wider and more varied set of government investment approaches – social housing grant should be only one way of securing government investment;
- a changed regulatory regime that is more focused on key outcomes than on process and form;
- social landlords changing how they think about themselves and how they operate.

A narrow debate about the role of social housing has led to the residual, welfare housing that is distrusted by many and which has trapped too many in social and economic exclusion.

The building of successful, sustainable places is not susceptible to a political quick fix. This is a vision of integrated places with different tenures and a plurality of providers, where it is easy to move from one tenure to another, one house to another, one place to another. Fundamentally, it is a vision of a good society and we need a language that bridges the present divides instead of reinforcing them.

Adapted from: Orr, D. (2008) A Perspective from England in Cowan, J. and Maclennan, D. (eds.) *Visions for Social Housing: International Perspectives*, [http://www.smith-institute.org.uk/pdfs/visions\\_sh.pdf](http://www.smith-institute.org.uk/pdfs/visions_sh.pdf)

## Prevention is better than cure

Liz Phelps, Social Policy Officer, Citizens Advice

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### **A thorough debate on how to fund and deliver a truly effective safety net is absolutely necessary.**

Access to affordable housing is a major problem for people on low incomes. As the demand for social housing far outstrips supply, many people find themselves stretching their budget to try to afford home ownership or turning to the private rented sector with its high rents and lack of security. All too often a change in financial circumstances can then quickly result in housing debt and changes are needed to ensure that policies and practices provide better support for people who are facing difficulties. In addition, there is a need for fundamental reform of the private rented sector to ensure private tenants get a better deal and to address the current lack of tenant empowerment.

The Citizens Advice service dealt with more than 590,000 housing problems in 2008/09, over a quarter of which were related to **housing debt**. Many people experience a shortfall between the benefits they receive and the cost of the rent or mortgage they have to pay. This, together with more widespread indebtedness, can result in arrears, repossession and homelessness for those in all housing sectors.

Recent research points to a deepening debt crisis in which many people turning to Citizens Advice Bureaux for help have no realistic hope of paying off their debts in their lifetime. "A Life in Debt"<sup>44</sup> reveals

that CAB debt clients owe an average of £16,971, two thirds more than in 2001, and the equivalent of almost 18 times their total monthly household income. It will take them an average of 93 years to pay off the money they owe at a rate they can afford.

Citizens Advice Bureaux have seen debt enquiries double in the last ten years. Debt is now the number one issue advised on in bureaux. This level of debt is closely linked to problems with housing. Analysis has found nearly one in three debt clients had mortgage or rent arrears, or owed money on secured loans. Four in ten were living in fuel poverty and a quarter had council tax arrears. Interestingly however, whilst the last year has seen double digit percentage increases in most CAB debt categories, social housing rent arrears problems appear to have bucked the trend and are relatively unchanged from 2007/08. It seems likely that the fact that housing benefit is in most cases paid direct to social landlords has helped protect this rental stream despite other pressures on tenants' budgets.

The current economic climate is having a major impact on owner occupiers. Enquiries to Citizens Advice Bureaux about arrears on mortgages and secured loans have increased by almost 50 per cent in the last year. The government has taken action on several CAB recommendations such as:

- regulating sale and rent back schemes;
- introducing a pre-action protocol for mortgage repossessions;
- improving the Income Support for Mortgage Interest (SMI) scheme.

However the safety net remains patchy. One area that requires more attention is

44 CAB (2009) A Life in Debt: The profile of CAB debt clients in 2008, [http://www.citizensadvice.org.uk/a\\_life\\_in\\_debt](http://www.citizensadvice.org.uk/a_life_in_debt)

how best to meet the needs of low income homeowners, and whether those in work should receive a benefit that is comparable to housing benefit.

When rent arrears problems are excluded, private rented sector (PRS) enquiries account for 25 per cent of all CAB housing enquiries, despite the fact that the sector has only 12 per cent of households. Pressures on social housing mean that there is a growing mismatch between what the PRS offers and the role which it is increasingly playing in wider housing policy. Action is required to address a number of areas of concern including:

- improved standards in the sector where 45 per cent of accommodation fails to reach the government's Decent Homes Standard;
- eviction of law abiding tenants at short notice because of landlord mortgage arrears;
- the need for greater tenant empowerment;
- effective regulation of landlords and agents so that tenants can be confident they will receive a professional service in return for their rent;
- some communities becoming virtual no-go areas for housing benefit (HB) tenants following the roll out of Local Housing Allowance (LHA). There is also emerging evidence that direct payment to tenants under LHA is resulting in increased rent arrears and therefore greater landlord reluctance to let to claimants;
- the failure of HB as an in-work benefit, where take up is around 50 per cent. The HB system is difficult to negotiate for people in temporary or erratic work and this is compounded by the poverty trap that can leave people very little better off after increasing their work hours.

## Rethinking housing

Sarah Webb, Director, Chartered Institute of Housing

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### **The current recession provides a vital opportunity to undertake a wide ranging rethink of housing policy to avoid a return to the housing system of 2007.**

While an increasing number of people face the very real prospect of repossession and, on the day when the Chancellor warned of massive public spending cuts ahead in his first recession budget, Radio 4's Money Box phone-in was on whether it isn't time to start investing in property again! CIH wrote Rethinking Housing last October to encourage the idea that, however difficult things are just now, the credit crunch/recession offers us an opportunity to think about what kind of housing system we would like going forward – based on the premise that a) we absolutely don't want to return to where we were in August 2007; b) we have to look at the system as a whole not just each tenure in isolation and c) we should take a consumer-based focus.

As we all rush round trying both to keep contractors putting one brick on top of another and to help households avoid homelessness it seems far too difficult to start reforming the whole housing system but this is a classic 'how to eat an elephant' issue. Rethinking Housing therefore suggests a new approach to:

- **Advice and information:** providing everyone with tenure-neutral housing advice – available throughout their housing 'career' not just at a point of crisis

and provided on the assumption that they have real options from which to choose;

- **Tenure:** flexible tenure that allows people to move in either direction along a continuum from 100 per cent renting to 100 per cent owning – in a planned way, and without necessarily moving house (ideas here include equity stakes for tenants, stair-casing down as well as up and regulated equity release schemes);
- **Housing benefit:** reformed so that it no longer acts as a disincentive to work (for example, everyone paying something).

Reform ideas for each specific tenure include:

#### **Social renting:**

- looking again at who can get access to social housing – for example quotas of lets to 'working poor' households who help to 'mix' an area;
- introducing more flexibility into the social housing offer – including reviewing and changing the terms on which tenancies are given;
- taking a customer-based approach by offering menus of services and variable rents;

#### **Private renting:**

- opening the PRS up to applicants on the waiting list for social housing;
- regulation to improve the quality of properties and management;
- increasing the supply of sub-market private rented accommodation;

#### **Owner occupation:**

- wider access to a simplified set of low-cost home ownership (LCHO) options;
- more robust mortgage regulation and better regulation of reverse equity and sale-and-rent-back schemes;

- a universal savings scheme to support sustainable and affordable entry into owner occupation.

Since publishing our ideas CIH has become more, rather than less, concerned that we are on course to simply return to the housing system as at 2007 – with unaffordable home ownership, excessive numbers of ‘buy-to-leave-empty’ investment flats, a residualised social housing sector (albeit with a waiting list in the millions), nearly a

million empty houses and a marginal private rented sector. A lack of housing supply remains a fundamental weakness with our current system but so too does our collective tendency to see housing as an investment good rather than as a home. Uncomfortable and politically unacceptable conversations about using the tax system to encourage our disinvestment in property may also be a prerequisite for avoiding a return to the kind of boom-and-bust housing system of the last 20 years.

## Learn the lessons of previous housing policies

Christine Whitehead, Professor of Housing Economics, London School of Economics

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### **In order to build successful housing policies we need to learn the lessons of the past through careful analysis of the strengths and weaknesses of previous policies.**

In 2005, the Office for the Deputy Prime Minister published an evaluation of high-level housing policy themes over the period 1975-2000. The themes were derived from an analysis of policy statements over the period and evaluation of them demonstrated that:

- Individual policy instruments are most successful when judged in their own terms. For example, Right to Buy raised the level of home-ownership.
- Policies often had unintended consequences. Frequently these were undesirable ones. Right to Buy and the homelessness legislation contributed to the residualisation of social rented housing which in turn created concentrations of poverty and exclusion.
- Policies often also presented trade-offs. For example, the greater choice for borrowers that arose from the liberalisation of the mortgage market also resulted in greater risks for certain households, as did changes in the safety nets.
- Policies are most successful when they follow the grain of economic and social change, and least successful when they do not.
- Overall, there is considerable evidence of good governance with few instances

of direct wastage of government funding and little large-scale dead-weight loss. Most policies have achieved some level of impact.

Housing policies are clearly only one factor in shaping wider housing systems. Institutional, economic and social contexts are fundamental to shaping both policies and outcomes. However, three policy clusters were identified as being of particular importance during the evaluation period:

- **Deregulation and liberalisation.** The deregulation of the financial system combined with housing privatisation mainly through the Right to Buy, were key to promoting the growth of owner-occupation from about 58 to 70 per cent of households
- **Restructuring housing subsidies.** Housing subsidies were radically restructured. In 1975 more than 80 per cent of housing subsidies were supply-side subsidies intended to promote the provision of affordable homes. By 2000 more than 85 per cent of housing subsidies were on the demand-side reducing housing costs for those on low incomes, with Housing Benefit emerging as the main subsidy instrument.
- **Asset restructuring.** Both of the above strands of policy changes were associated with a massive asset restructuring as ownership of much local authority housing was shifted to the housing association sector, which also became the main provider of new social rented housing.

The most fundamental legacy to emerge from the evaluation period is that the housing system as a whole is not robust,

responsive or self-sustaining. There is massive variation in housing outcomes for different groups, particularly between those who are already reasonably housed and those trying to gain access to the decent housing. The housing system has also generated increasing levels of uncertainties for both individuals and the economy (through the impact of housing on macroeconomic variables).

The evaluation indicated that many policies pursued over the evaluation period were successful in their own terms, yet many of the problems identified at the beginning of the period have not been addressed effectively because:

- Emerging challenges remain unanticipated because policies are formulated as reactions to particular problems.
- Policies are often narrowly conceived because they deal with the symptoms of particular problems and ignore wider contextual influences.
- Consequent unanticipated behavioural responses to policy instruments sometimes spawn an array of follow-up policies leading to excessive micro-management.

- There is little vision of what a coherent and robust system would look like, and therefore little attempt to test policies against achievement of this system.

There are four key requirements for the housing system to function well over the coming decades:

- It must exhibit robustness to changing economic conditions and shocks.
- It must be flexible in response to economic needs.
- It must be able to respond to demographic changes.
- It must adapt to rising aspirations in terms of both demand and the capacity to adjust existing stock and sustain neighbourhoods.

Although a decent home for everyone at a price within their means should remain the key housing objective, the way in which housing policy is conceived must change if these problems are to be overcome.

Adapted from: Stephens, M., Whitehead, C. and Munro, M. (2005) *Lessons from the Past, Challenges for the Future for Housing Policy: An evaluation of English housing policy 1975 to 2000*, <http://www.eukn.org/binaries/united-kingdom/bulk/research/2006/1/lessons-from-the-past--challenges-for-the-future-of-housing-policy.pdf>

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