AFFORDABILITY

Fourth Roundtable Discussion Paper

Rent is considered to be affordable if it does not cost more than 30 per cent of your household's income, according to the Office for National Statistics. The government's current [National Planning Policy Framework (NPPF)] defines *types* of affordable housing for rent and affordable housing for sale. However, the term is generally used to loosely describe homes for sale or rent and for people whose needs are not met by the private market.

THE SITUATION:

Issue 1: ***the housing shortage is deepening everyone's cost of living***.

The collapse in home-ownership among the young and middle-aged is one of the most seismic social changes of recent decades. There is a generation growing up locked out of home ownership and, with it, the assets that sustain and protect them through tough times and good - though, of course, falling prices would have trapped many people in the wrong home.

Crippling cuts to government subsidy funding along with a lack of housing finance (institutional capital, both debt and equity), the end of an era of ultra-low interest rates, with high prices and deposits stopping first-time buyers from getting on the property ladder, the growth of the Airbnb industry and a demand for higher safety and environmental housing standards have combined in a perfect storm to create a ruinously distorted housing market.

For decades, house prices have gone up by much more than wages (the increase in rent prices have been tracked since 1987 in ONS retail price index data[1]) and rents are now at record levels leaving millions spending more and more of their income on housing. The welfare system has not kept pace, pushing more people into poverty as a result of their housing costs. Millions more now face big increases in mortgage costs as interest rates have risen[2] while others searching for good, affordable housing find themselves having to endure 'rental rat race' bidding wars.

But added to this, eight of Britain's biggest housebuilders are currently under investigation from the competition regulator amid concerns that they are working together to limit the supply of new homes and to keep their prices high.[3]

The Competition and Markets Authority said that it had found evidence indicating that some developers may be sharing "commercially sensitive information", which, it is concerned, could be influencing the prices at which new homes are built.

Issue 2: ***at the same time a lack of homes is also widening the intergenerational divide.***

Flying the nest used to be a rite of passage. Now it's a right reserved for those with plenty of money. Only those fortunate to be able to draw on the so-called 'Bank of Mum and Dad' can move away and work where they choose, entrenching inequality. Figures suggest a notable rise in the share of young house buyers turning to friends and family for help in securing their property. The proportion of first-time buyers receiving such a gift to help with their deposits hit 37% in 2022-23, up from 27% a year earlier. It represents a 40% increase and some 89,000 extra households.[4] Many have no choice and are among the 3.6 million of those aged 20 to 34 are still stuck at home in their childhood bedroom, according to research by Hargreaves Lansdown.[5]

Although the capacity of younger households to enter homeownership has massively declined since the turn of the century – the wish to own has not. This matters because other tenures are also inaccessible and unaffordable. In England options are limited to a mainly unregulated privately rented sector, where demand for housing has been driving rent increases. According to the property search website, Rightmove, letting agents are now receiving an average of 25 email and phone enquiries from prospective tenants for every home available to rent. This has risen from eight enquiries per property in 2019.[6]

Rising mortgage rates also played a part in pushing up rents. David Hollingworth from the mortgage broker L&C said: "Higher interest rates put pressure on rents and make it harder for renters to get on the property ladder. Then you end up with a huge number of people looking for decent properties while landlords are under financial pressure."[7]

Rents in the UK increased by 8.6 per cent in the year to June 2024 according to the office for National Statistics. The average private rent in Britain is £1,271 per month.[8] Typical tenants in a private rental spent about 35.3 per cent of their pre-tax income on rent last year, according to the estate agency Savills – 42.5 per cent in London.[9]

Graduates fresh out of university are spending on average more than half their take-home pay to rent a room in London, according to the flatshare website SpareRoom.[10]

Meanwhile the low interest rates of the past decade (until very recently), together with increasing house prices, have kept costs down for existing homeowners and increased their wealth, resulting in an unprecedented scale of intergenerational wealth inequality.[11]

Issue 3: ***it is weakening the wider economy.***[12]

It is long-term property prices, forcing too many people into homes that are too small, far from their communities and too far from work, not a temporary spike in the cost of food or energy, that represent the real cost-of-living crisis. [13]

The severe shortage of accommodation is forcing key workers out of locations where they would like to work and sometimes, out of their job. Research by charity Generation Rent found that a teaching assistant would need to spend 90 per cent of their pre-tax income on a typical rental property in Greater London. After paying tax, a typical teaching assistant would have had £1,399 a month left (assuming that no deductions were made for student loans or pension contributions). Bus drivers, carers and hospital porters earning an average London salary would have to spend most of their income on rent to live in the city.[14]

This loss of key workers is particularly acute in tourist areas where large numbers of what were previously long term rental properties have been turned over to Airbnb. Small shops and businesses, unable to thrive where properties surrounding them are used only for short periods during the year, are being forced to close, adding to local jobless figures.[15]

At the same time the cost of housing benefit payments and temporary accommodation for the homeless is soaring. London Councils research from August 2023 shows that one in 50 Londoners are now homeless and living in temporary accommodation, and the capital's boroughs are collectively spending on average around £60m per month on temporary accommodation costs.[16]

A banking lobbyist recently suggested economic growth was being held up by mortgage providers stopping first-time buyers from getting on the property ladder. Head of UK Finance David Postings said reforms introduced in the wake of the 2008 financial crash could be "preventing some people from buying their own home whilst trying to protect them". Any government would be looking to encourage economic growth but "dampening down the mortgage market has a significant impact on that aim."[17]

Issue 4: ***Targets are unfocused.***

Despite usage of a range of 'barometers' a, clear metric of need has failed to emerge. Most commonly cited is the number of children in temporary accommodation such as bed and breakfast hotels and hostels. This has now risen in just over a year from 121,000 to 142,000. [18]

Without a clear target, there cannot be clear funding and increasing numbers of families in need are falling 'between the gaps'. The current national target of 300,000 new additional homes per annum by the mid-2020s has been in place since 2017 and has little basis in the evidence. Nor has it been achieved since the years when local authorities provided around half of all new output.[19] In 2018 there were an estimated

4.75 million households in housing need across the country.[20] Little is being built and much of what is being built is considered to be in the wrong formation, as research suggests recent migrants tend to live in larger household groups than long-term UK residents.[21] Families are having to endure long waits for accommodation. In Basildon residents have to show proof of having lived there for eight years to get on the council's housing register, barrister and broadcaster Hashi Mohamed told a Land Planning and Developers Federation seminar into 'The Affordable Housing Conundrum' in April 2024.

The head of Peabody, one of the country's largest housing associations, believes there was a shift in attitude in the years leading up to Margaret Thatcher's election as prime minister, that persists today. In an interview, Ian McDermott said that in the early 1970s, an estimated 85 per cent of all social housing funding went into building new homes. Now the bulk of the money goes on housing benefits, which, in turn, are passed on to private landlords.

"We've gone from bricks to benefits," he said. "The government, in the short term, wanted to spend less money, but the long-term effect of that has been to increase the cost to the public purse quite significantly."[22] Today the social rented sector accounts for only seventeen per cent of all dwellings, down from over 20% in 2021[23] - though this is still high compared to some other European nations.

The National Housing Federation thinks that 90,000 social rented homes need to be built every year in Britain to ease a housing crisis that has left local authorities with huge waiting lists for homes. Even if only 90,000 were built in total, and not annually, the Centre for Economics and Business Research, the thinktank, has calculated that doing so would boost the economy by £51.2 billion, most of which would be felt by the construction industry. On top of that, the CEBR estimates there would be "societal benefits" worth £31.4 billion, including billions of pounds saved by not having to put people up in temporary accommodation.[24]

Issue 5: ***Previous attempts at funding 'fixes' have had unintended consequences that have made the situation worse***

Around half of affordable housing is currently provided through the mechanism of Section 106.[25] However some witnesses to the Lords Economic Affairs Committee (2016), including small builders, said section 106 and CIL were ineffective and an obstacle to development. The National Audit Office reported in January 2019 only 47% of local authorities had implemented the CIL. One company, Pocket Living, told the Lords Committee that it took 16 weeks to get planning consent and a further 22-44 weeks to negotiate the section 106 agreement. Small builders face the same level of complexity as larger developers – the Committee was told an increasing number have the additional cost of buying in expertise to navigate the system.[26]

There is currently an acute lack of demand for nil grant Section 106 homes amongst Housing Associations. This reflects severely restricted financial capacity and the clear focus for Housing Associations on their existing stock, with issues to resolve around damp and mould, fire safety and decarbonisation, alongside spending the available grant funding on their own land-led development schemes.[27]

Schemes to help first-time buyers get a foothold on the housing ladder have fared no better. Governments have tried various schemes like Help to Buy, Lifetime ISAs and the recent 95% Mortgage scheme to help young people circumvent the challenge of saving for a deposit of tens of thousands of pounds. But the Lifetime ISA scheme has been criticised for its inflexibility with savers forced to pay out millions in fines simply to withdraw their own money[28] and the Help to Buy equity loan scheme was closed in March 2023, partly because of concern that it had led to increased house prices. (It was a brilliant scheme, but it went on for too long)...

Attempts to put in place better protections for tenants have also run the risk of diminishing supplies. The planned abolition of Section 21 'no fault' evictions under the Renters' Rights Bill have accelerated sales of properties by many landlords already suffering squeezed profit margins from higher mortgage rates and less generous tax relief. Close to two million landlords have been faced with the prospect of much higher payments, many also seeing their rental income reduced through it pushing them into a higher tax payment band. According to the homeless charity Shelter, almost one million tenants have been removed from their home through a no-fault eviction since the ban was proposed in 2019.[29] We need to know how much more this is than the prior five years to assess significance!

Borrowing for registered providers has also become harder in the current financial climate, delegates to the Land Planning and Developers Federation seminar into 'The Affordable Housing Conundrum' earlier this year were told. At the same time the cost and administration of large retrofitting programmes for their existing stock has left many unable to deliver affordable homes.[30] They have instead turned to shared partnerships where they have more control. [31]However, in the cost of living crisis it has become more difficult for shared owners to staircase up to 100% ownership, as was the norm in the early years of the scheme. Instead, the proportions initially bought have fallen and the costs of purchase have risen with increasing house prices.[32]

Issue 6: ***Demographic and 'marathon mortgage' consequences.***

Links are being made between the fact that a third of all adults in this country aged 25 – 29 now live with their parents, a trend that has accelerated over the past decade, and the decline in Britain's birth rate. The fertility rate in England and Wales has fallen rapidly from just below 2 to 1.65 in 2019. By the third quarter of 2020, according to provisional figures published by the Office for National Statistics a few weeks ago, it had dropped again to 1.6. This would be the lowest figure since comparable records began in 1938. Reports have cited high house prices being linked to low birthrates[33] but there has been little research in this area. However, an academic study in the Netherlands, where the past 13 years have seen the average number of births per woman fall from 1.8 to 1.43, has attributed up to a quarter of that decline to the sharp increase in the value of homes.[34] The article states that the Netherlands, the most densely populated European country after Malta, has seen extreme house price rises since 2010. Meanwhile, birth rates have plummeted to their lowest level since the Second World War. The article makes clear the disappointment of a young couple unable to get onto the property ladder and start a family. It also suggests this situation is not a good one, pointing out that the housing crisis is "so extreme that the UN special rapporteur on the right to adequate housing recently came to investigate."

At the other end of the age-scale, growing numbers face the risk of paying off so-called 'marathon mortgages' well into their retirement. According to the trade body UK Finance, 19 per cent of first-time buyers who took out a mortgage in June had a term of 35 years or more. Another 35 per cent had between 30 and 35 years. About 60 per cent of new mortgages between April and June were due to end after the borrower's 65th birthday. It used to be the case that your bank would want you all paid up by age 65, but many will now lend into your seventies or eighties, and a handful have no age limit at all.[35] If you take out a longer mortgage you will pay more in interest over its lifetime. Assuming an interest rate of around 4 per cent over the entire term, someone who took out a 25-year £200,000 mortgage would pay £316,800 overall. Someone who took out the same loan over 40 years would pay £401,280.[36]

PRINCIPLES WE MIGHT APPLY:

Use legislative changes to treat private landlords as providers of housing and work with them as a part of, and not in competition with, the housing sector. Implementing the current proposals in relation to security of tenure but at the same time introduce a formula for rent changes once an initial tenancy has been agreed.

Oblige landlords to meet an appropriate Decent Homes Standard and ensure local authorities have the resources to monitor and enforce these standards. At the same time, ensure the taxation system for private landlords is aligned with business taxation, which would help them make a reasonable return in the context of greater security of tenure and paying for higher standards. Last week (27.7.24) the boss of property listings website Zoopla said that being a private landlord in Britain no longer made financial sense due to a combination of tax rises, high mortgage rates and red tape.[37]

As is already proposed: require planning permission on the change of use of houses into short term lettings in specifically defined locations and raise SDLT and council tax on second homes with consideration given to allocating the income to the provision of new social and affordable housing.

Reinforce the Competition and Markets Authority recommendations to government for establishing a New Homes Ombudsman as soon as possible, setting a single mandatory consumer code so homeowners can better pursue homebuilders over any quality issues they face. Require councils to adopt amenities on all new housing estates.

Enable earlier involvement of registered providers by moving the VAT threshold to before ‘golden brick’, as outlined in this Housing Commission’s own finance subgroup meeting 24.6.24. This would enable them to commit to schemes without the risk of having to pay VAT and would not diminish treasury VAT returns.

Change the treasury policy on disposal of public land which defines ‘best value’ as highest financial value, so that organisations such as the NHS are not forced to sell land they could use for key worker accommodation.

Launch a new grant funding programme to properly fund refurbishment of existing stock, to align with announcement of a new Decent Homes Standard. Also, enable housing associations to better access building safety remediation funds.

Launch a media campaign aimed at shifting thinking away from housing as a consumer good/wealth source and towards homes as essential to a decent life with health and well-being at its heart. Having a secure home isn’t just a consumer good and we shouldn’t pretend it is.

Legislate to enable councils to purchase homes to use as temporary accommodation for homeless families instead of paying private landlords. Write into the legislation that they be used for social housing at a later date, should there be no-one left on the waiting list. Perhaps we need to give powers to local authorities facing increasing numbers of homeless with the potential to acquire former ‘Right to Buy’ properties for temporary accommodation. We could also simplify the use of Section 106 agreements to provide affordable homes, speed up the application process and make outcomes more predictable.

Also, re-assess the building target of 300,000 new homes per year, clarifying the proportion that should be social and affordable homes.

Make clear that it is unrealistic to expect a major programme of affordable housing to be funded entirely by private investors. Devise a social housing renewal plan that would include a 10-year, index-linked rent settlement.

Reduce rental costs for public sector workers by requiring public sector employers to guarantee to fill privately developed housing schemes with tenants for a minimum of 20 years. The discounts would mean the guarantee would be unlikely to be called and would allow public sector workers to keep more of their income to save for house purchases.

Introduce a system of employer-backed nominations agreements for all public sector institutions to create low-cost rental housing for nurses, care workers, prison officers and others.

QUESTIONS WE NEED TO ANSWER:

1. **Definitions.** How can we formulate a definition of affordability that works for everyone and is used consistently in the future?

2, **New institutions.** How do we break the vicious circle of lack of supply, house price inflation and poor rental standards? What are the structures that can increase both funding (government subsidy) and housing finance (institutional capital, both debt and equity)? What is the right target for affordability and who pays? What is the role of registered providers and local authorities in the process of increasing the supply of affordable homes? What role can Homes England play? How could it make the loan models it has in place a more attractive proposition to increase the levels of affordable homes we provide? Should there be something similar to the Public Loans Board?

3. **Social rents**. Whatever the solution to social housing waiting lists, there are too many people in temporary accommodation and low income people in poor quality PRS. So we must increase the supply of new social rent. The funding of this has been covered in previous sessions - it's not easy as we have to pay either now or over time - but it would be of great social value and relieve the pressure on Housing Benefit, (though there is less certainty that it would pay for itself).

4. **Rents.** More broadly rents are taking too much of people's income. Many solutions would take too much time (like the key worker solution above). There is probably a shortage of rental stock - how far might the AirBnB contribute? Should we curtail this? And/or holiday cottages? Rent controls - there is a lot of evidence that these don't work in an extreme form, possibly including the present Scottish experience. With 'no fault' evictions already being ruled out, we need to be careful not to put off potential landlords too much. So, any rent control probably should be rather light touch/ (Kate says: "I think that it might be good for this Commission to say so - dissing bad ideas can be as important as coming up with good ones").

5. **Deposits.** How should we solve the deposit issue? Kate says: "I am reluctant to see deposits go - they are a good protection against negative equity and also prevent the 100%+ mortgages we had in mid 2000s. Government guaranteeing is risky as you have to pay out most in a downturn, plus you end up helping those with wealthy parents and those without alike. All thoughts welcome. If house prices fell relative to young people's earnings. it would be very helpful!"

6. **Bringing down house prices.** What apart from supply might bring house prices down? Taxation is the obvious answer. The IFS produced a good piece in 2020 on the redistributive effects if we went in for a full council tax revaluation - they pointed out that it would also affect prices in higher priced areas but not sure they circled back.[38]

What about CGT - should CGT be paid on first homes, for example - or reform to inheritance tax? Or could we try limiting the supply of mortgage finance, as we did in the days of the corset (until 1979)?[39]

7. **Unintended consequences**. We've commented that the various factors in the housing market are all interlinked. So we need to be careful of setting out solutions to one of these issues that might have unintended consequences elsewhere.

LY and DB, 29 July 2024

---

[1] https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/dobp/mm23

[2] https://www.housing.org.uk/our-work/a-long-term-plan-for-housing/lets-fix-the-housing-crisis/

[3] https://www.gov.uk/government/news/cma-finds-fundamental-concerns-in-housebuilding-market and https://www.thetimes.com/uk/article/housebuilders-accused-of-working-together-to-keep-prices-high-p5gd2b8gb

[4] https://www.theguardian.com/society/2024/mar/16/over-a-third-of-first-time-buyers-relying-on-bank-of-mum-and-dad

[5] https://www.thetimes.com/life-style/property-home/article/are-you-a-twentysomething-living-at-home-join-the-club-jqxpfnqm2

[6] https://www.rightmove.co.uk/news/articles/property-news/rental-tracker-25-lettings-enquiries-every-home/

[7] https://www.thetimes.com/business-money/money/article/rent-uk-cost-why-so-expensive-kmc9llj0m

[8] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/privaterentandhousepricesuk/july2024

[9] https://www.savills.co.uk/insight-and-opinion/savills-news/354578-0/uk-rents-to-keep-on-rising-but-will-hit--affordability-ceiling--in-2025

[10] https://www.thetimes.com/uk/article/graduates-spend-more-than-half-their-wages-on-rent-2d5sxwvv2

[11] https://www.housinglin.org.uk/_assets/Resources/Housing/OtherOrganisation/LSE-A-Road-Map-to-a-Coherent-Housing-Policy.pdf

[12] https://www.thetimes.com/business-money/money/article/rent-uk-cost-why-so-expensive-kmc9llj0m

[13] https://www.spectator.co.uk/article/property-prices-represent-the-real-cost-of-living-crisis/)

[14] https://www.thetimes.com/business-money/money/article/london-rent-2024-cost-1-bedroom-flat-hntd8qdmx

[15] https://www.housinglin.org.uk/_assets/Resources/Housing/OtherOrganisation/LSE-A-Road-Map-to-a-Coherent-Housing-Policy.pdf

[16] https://www.london.gov.uk/who-we-are/what-london-assembly-does/questions-mayor/find-an-answer/housing-taskforce-1

[17] https://www.telegraph.co.uk/business/2024/03/08/red-tape-holding-back-housing-market-banking-lobbyist/

[18] https://www.theguardian.com/society/2024/mar/09/homeless-kids-england-childhood-temporary-housing-families

[19] https://www.housinglin.org.uk/_assets/Resources/Housing/OtherOrganisation/LSE-A-Road-Map-to-a-Coherent-Housing-Policy.pdf

[20] Tackling the under-supply of housing in England https://commonslibrary.parliament.uk/research-briefings/cbp-7671/

[21] Ibid., citing A.E. Holmans in Housing need and effective demand in England, 2014

[22] https://www.thetimes.com/business-money/article/he-built-homes-for-londons-poor-but-will-we-see-his-like-again-njf3vzr0x

[23] https://www.housinglin.org.uk/_assets/Resources/Housing/OtherOrganisation/LSE-A-Road-Map-to-a-Coherent-Housing-Policy.pdf

[24] https://www.housing.org.uk/resources/the-economic-impact-of-building-social-housing/

[25] Tackling the under-supply of housing in England https://commonslibrary.parliament.uk/research-briefings/cbp-7671/ citing Stephens M: 2020 UK Housing Review Autumn Briefing Paper, p14

[26] Tackling the under-supply of housing in England https://commonslibrary.parliament.uk/research-briefings/cbp-7671/ citing Select Committee on Economic Affairs, Building More Homes (PDF),15 July 2016, HL Paper 20 2016-17, para 116

[27] LPDF/Richborough Land Matters Report: https://lpdf.co.uk/news/small-sites-crucial-to-meeting-1-5-million-new-homes-target-by-2030

[28] https://www.telegraph.co.uk/money/banking/savings-accounts/george-osborne-lifetime-isa-reforms-ended-disaster-savers/

[29] https://www.thetimes.com/article/no-fault-evictions-news-landlords-uk-2dspq9dww

[30] LPDF/Richborough Land Matters Report: https://lpdf.co.uk/news/small-sites-crucial-to-meeting-1-5-million-new-homes-target-by-2030

[31] LPDF seminar ‘The Affordable Housing Conundrum: Rising Demand Amidst Growing Challenges in Delivery. London. April 16

[32] https://www.housinglin.org.uk/_assets/Resources/Housing/OtherOrganisation/LSE-A-Road-Map-to-a-Coherent-Housing-Policy.pdf

[33] https://www.thetimes.com/uk/social-media/article/welcome-to-the-essex-town-where-the-birthrate-is-falling-off-a-cliff-g9vbs3l98

[34] https://www.thetimes.com/world/europe/article/why-rising-house-prices-are-cutting-the-dutch-birth-rate-8tqlsrqjl

[35] https://www.thetimes.com/life-style/property-home/article/mortgage-news-uk-latest-rates-40-year-retirement-fjnzr6xm9

[36] https://www.thetimes.com/life-style/property-home/article/hsbc-40-year-mortgage-deal-2023-llnnctjmc

[37] https://www.telegraph.co.uk/business/2024/07/27/private-landlord-britain-no-financial-sense-boss-zoopla/)

[38] Adam, S. et al (202)0), Revaluation and Reform: Bringing council tax in England into the 21tst century: London, Institute for Fiscal Studies: https://ifs.org.uk/sites/default/files/output_url_files/R168-Revaluation-and-reform-bringing-council-tax-in-England-into-the-21st-century-updated.pdf

[39] Boyle, D (2013), *Broke: Who killed the middle classes?* London: Fourth Estate, 62-3, 65-86,