

Future housing policy – First Draft

Housing policy is about many things. It is about: the levels of construction of new houses; providing a range of options for those who wish to rent, buy or part buy and; creating a mix of dwelling types which are flexible enough to meet changing needs as people age. The creation of affordable housing, allowing flexible transitions between types of tenure is also a key need. On a wider plane, housing policy also involves land use planning strategies; the creation of attractive local communities; and a regional policy which matches homes to job availability. Particularly in relation to social housing, the interaction with welfare law has to be examined carefully. The challenge of homelessness, fuel poverty and the creation of a housing stock to cope with climate change are other elements of an overall strategy. Underlying all of this, is a financially constrained environment, which demands new models for financing housing choices.

The following are some key background facts in relation to housing:

1. Housing starts and completions are at record low levels at present. In 2010 there were just 102,570 completions, the lowest level of house building in peace time since 1923. This is even less than the number in 2009 which was only 118,000, barely half the average for most of the period from 1990- 2009.
2. Demand for new homes is high. The Housing Green paper in 2007 set the target for supply at 240,000 per annum. The lag in new housing provision in the private sector feeds shortages and house prices.
3. Population growth, changing patterns of household formation and rising incomes all fuel demand for housing. According to CLG figures, the number of households is expected to gradually increase from 27,000,000 at present to 33,000,000 by 2031.
4. Higher rates of divorce, more people living alone and increasing longevity are behind the increasing rates of household formation. While much of the political focus is on families, one person households which accounted for 19% of the market in 1971 had grown to 33% by 2010!
5. Houses account for 82% of the dwelling stock in England although in recent years (2008/2009) there has been a 50/50 split between housing and flats (partly fuelled by the buy-to-let boom).
6. The provision of affordable housing is particularly critical.
7. The needs of those who cannot aspire to home ownership but who are struggling to pay private rents has to be addressed.
8. Since the 1980s, private house builders have provided 90% market share of the new homes built in this country. (CLG Table 241). Of the NHBC register of 18,000 builders (covering 80% of the new homes built in UK), just under 200 firms produce more than 50 homes per year (Barker 2003). The Callcutt Report 2007 indicated that less than 50

- house builders built more than 500 houses annually during the last 20 years.
9. The self build sector while small is significant, particularly in rural areas. It is estimated by the Joseph Rowntree foundation to be around 20,000 per year.
 10. There are also substantial numbers of empty homes. The number quoted by the Empty Homes Agency (an independent charity) for 2009 is 726,238.
 11. The growth in the “second home” market has major knock-on effects in areas of high demand.
 12. Housing finance in the form of mortgages for individuals is difficult to obtain at present and the deposits required are high. Figures from the Council of Mortgage Lenders (CML) show that many first-time buyers must save the equivalent of more than a year's salary to be able to afford a deposit for a home. The typical deposit stood at £12,700 at the start of 2007, but rose to £31,500 by the second half of 2010.
 13. The housing market is susceptible to interest rate rises which are inevitable but will create difficulties for both buyers and developers. At present, the bank rate remains at 0.5% in February 2011, the 23rd month at this level in a row.
 14. Figures from the Land Registry indicate that the average cost of a home dropped by 0.9% during the year to the end of January 2011 to £163,177 – the first time annual growth has been negative since October 2009. Broadly speaking, price trends are flat at the moment.
 15. Housing supply is unevenly distributed throughout the country with particular shortages in Southern England where economic prospects are brightest.
 16. The prospect of imminent reform to the planning system is causing delays and uncertainty. The publication of the New Homes Bonus scheme indicates an attempt to kickstart the system.
 17. Successful land acquisition is crucial to house builders. Good knowledge of local markets and planning requirements are crucial. The result is geographical fragmentation with many strong regional players and national firms formed around sets of regional operations.
 18. The house-building industry tends to be conservative. Innovations such as timber frame construction in the 1970s and the earlier precast panel systems have taken place but the dominant model is for conventional new homes (which buyers prefer in any case).
 19. There are new technologies using prefabricated offsite homes which can be assembled in modules which have the potential to revolutionise the industry.
 20. Viewed in the context of an ageing population, flexibility will be a key feature of future housing.
 21. Housing accounts for 30% of the UK's total energy use and 27% of all carbon emissions. It is a key frontier in tackling carbon emissions nationwide.

Access to housing

Access to housing needs to be viewed in relation to supply side measures such as the levels of house-building, house prices and mortgage availability while on the demand side of the equation, matters such as demographic change, migration patterns and regional economic disparities are among the factors to be considered. Access to housing also needs to be viewed on a sectoral basis with different considerations for the social sector, the private rented sector and owner occupancy.

Population growth

The estimated resident population of the UK was 61,792,000 in mid-2009, up by 394,000 on the previous year. The population of the country is growing both by natural increase, as well as increasing longevity and also migration. While emigration has been in decline recently, immigration continues. The number of foreign migrants settling in the UK rose by 22% last year, Office for National Statistics figures show. A total of 237,890 people were granted settlement in the UK in 2010, compared with 194,780 in the previous year - close to record levels. The number leaving the UK also fell to 57,085, the lowest in five years.

The sectoral picture – private rentals

Some idea of the changing picture in relation to housing can be gained by gauging trends in the private rental sector. The number of people renting a home has soared by 40% during the past five years as low levels of house building, financial uncertainty and the mortgage drought have prevented potential buyers from getting on to the property ladder. About 3.4 million households were living in privately rented accommodation during 2009/10, up from 2.4 million in 2005, according to the English Housing Survey. At the same time the number of people who owned their own home fell from a peak of 14.8 million in 2005 and 2006 to 14.5 million.

The increase in people living in private rented homes was particularly marked from 2007 onwards, with the percentage of households in this position jumping from 12.7% to 15.6%. The rise in people renting is likely to have been largely caused by the credit crunch, which has led to steep falls in mortgage lending as banks and building societies tightened their criteria.

It should be noted that proposed changes to housing benefit will particularly affect tenants in the private sector.

The sectoral picture – house purchase

The large deposits now being demanded by lenders has led to a steep fall in the number of first-time buyers, with just 196,700 people getting on to the property ladder in 2009, less than half the 402,800 people who bought their first home in 2006.

The tight lending conditions and house price falls have also had a big impact on developers, with the number of new homes built diving to their lowest peace-time level since 1924 in 2009, before falling further in 2010.

Couples without dependant children were most likely to own their own home, accounting for 44% of owner-occupiers. But at the other end of the scale, single parents were the least likely to have got on to the property ladder, with just 3% owning a property, while 16% lived in social housing and 12% rented from the private sector.

The sectoral picture – social housing

Within the social housing sector, the National Housing Federation points out that the underlying problem is the shortage of affordable housing as building has failed to keep pace with demand. They say that waiting lists have soared in the past decade from 1.04 million households in 1999 to 1.75 million households in 2009. CLG puts the numbers on waiting lists at nearly five million.

Research from the Joseph Rowntree Foundation indicates that there has been a net reduction in social rented housing across the UK over the last two decades of over 0.6 million units at a time when the population is increasing and there has been an increase in household formation. Whilst this loss has partly been met by the introduction of shared ownership, the net reduction is still considerable and has contributed to the escalation of house prices and the resulting market volatility.

The social housing situation is complex in that it involves several inter-related issues which include: the funding mechanisms for building and renovating housing in the social sector; housing benefit issues; the reform of social housing tenures; the role of housing associations and widening the range of social housing options.

The Localism Bill which is going through the legislative process at the moment allows for the creation of more flexible tenancies, changes to the allocation system for tenancies and the creation of a new “affordable” rent which will allow housing associations to charge up to 80% of local market rates.

Affordability

The affordability of housing is something that shifts over time, and between regions. At the moment rents for homes are high (particularly in the private sector) and buying a home is difficult due to a high price to earnings ratio and scarcity of mortgages.

Affordability in the rented sector

The strong demand for rented homes, combined with a shortage of supply, pushed rents up to record levels during the second half of last year according to figures from the English Housing Survey. People renting social housing paid an average of £75 in rent a week, less than half the £153 paid by people in the private rented sector in 2009/2010.

Affordability of house purchase

The situation in relation to the affordability of house purchase over a period of time can be gauged from the following table.

<http://www.lloydsbankinggroup.com/media/excel/2010/AffordabilityQ12010.xls>

According to the latest survey from the Nationwide published on March 1 2011, the average home costs £161,183 with the trend in prices broadly flat. Nationwide have said that with the economic recovery set to remain fairly modest, any improvement in employment and wages was likely to be slow going, leading to a subdued housing market during 2011.

Over the longer term, it expects wages to outpace house price growth, gradually improving affordability from its current level of house prices being around five times average earnings, to being closer to the long-run average of being four times higher. It warned however that if the rate at which new homes were being built did not improve, an increase in demand would renew the upward pressure on prices.

The “squeezed middle”

In this fluid situation, some groups fare better than others. One group which is particularly at risk is the “squeezed middle”. This can be defined as low and middle earners with incomes between £12,000 and £30,000 for a couple with no children and up to £48,000 for a couple with three children. Broadly, they are defined as not wealthy enough to benefit from private markets but too prosperous to receive benefits from the state.

The independent [Resolution Foundation](#) are conducting research which will say that 41% of young low-to-middle earners live in privately rented accommodation compared with 14% in 1988, suggesting a dramatic reduction in the number of those who can afford to get on to the housing ladder. It will also highlight evidence showing that someone at the lower end of these incomes will take 45 years to accumulate a deposit to buy a home if they save an average 5% of their income a year. This compares with less than 10 years during periods in the 1980s and 1990s.

First time buyers

A major symptom of the dysfunctional situation in relation to house purchase can be seen by examining the difficulties of first time buyers, who are the first rung on the housing ladder. Figures show a downward trend in first-time buyer numbers throughout 2010. There was a sharp fall at the end of the year, according to the British Bankers' Association (BBA), although this was skewed by the rush to beat the end of the stamp duty holiday at the end of 2009.

First-time buyers are regarded as crucial to any housing revival, but many have only been able to get onto the ladder with financial assistance from relatives. Some 84% of those aged under 30 required such assistance, the Council of Mortgage Lenders (CML) said. The average deposit required when buying a property was 23% in December, according to the British Bankers Association (BBA), up from 21% the previous month.

This has been partly the result of strict lending criteria from mortgage providers - including turning down potential borrowers with any blot on their credit history. Grant Schapps recognizes the problem. He has said "We want to do more to help aspiring first-time buyers - the average age of the first-time buyer with no support from their family is now 37, and there are 1.4 million households who aspire to own a home but are simply unable to do so because of house prices and mortgage availability."

Interestingly the CML questioned the minister's figures, saying that the typical age of a first-time buyer who did not receive help from relatives was 31. The lenders' group said that funding problems for lenders and stricter regulations - which required lenders to hold more capital for lending to "riskier" borrowers - meant that things could not change quickly.

"First-time buyer numbers will only recover slowly over time, and may take several years to approach the annual rate of 400,000 to 500,000 purchases that we have seen historically," the CML said.

"A range of initiatives - including shared ownership, product innovation and mortgage insurance - could all potentially play a part, but none is likely to be a magic bullet that restores normality to the mortgage market, for first-time buyers or anyone else. This is likely to be a gradual process as confidence in funding markets and lending decisions is restored."

The Building Societies Association contends that any new schemes need to be run alongside a faster house building programme.

Future projections

The problem is nationwide. In February 2011, an analysis published by the Scottish Executive found the proportion of people aged under 35 renting from a private landlord has rapidly increased from 13 per cent in 1999 to 31 per cent a decade later. By 2014 this group will overtake the number of young Scots with a mortgage and by 2020 more than half of under-35 households will be renting in the private sector.

The paper said a "significant barrier" is the high cost of deposits required to get a mortgage, with banks and building societies typically demanding 15 per cent of the house price up front. Young people trying to save for a deposit face an additional burden as landlords are taking advantage of the situation by increasing rents, with the average bill now back at the same level as before the credit crunch.

Stability

The housing sector is not faring well at present. Affordable housing is in short supply and house-building levels across all sectors are low. Despite some falls in price in 2008/2009 house prices overall are still high and first time buyers are scarce in the private housing market.

The importance of the housing market within the British economy can be seen from the fact that in 2007, at the height of the boom, figures from the Office of National Statistics showed that 60% of the country's £6.5 trillion wealth was tied up in residential property. Releasing the equity tied up in housing will also be a vital part of the financial planning strategies for many older people who are retiring in record numbers as the baby boom generation ages. The poor returns on many people's pensions could force them to sell up and downsize to help raise additional funds.

Any examination of the housing market also has to consider the "buy to let" sector of the market. Figures from the Council of Mortgage lenders showed that in 2010, buy-to-let (BTL) lending rebounded, with lenders granting 102,400 new BTL loans, 10% more than in the year before. Mortgages for landlords - 1.3 million in total - rose in 2010 from 11.8% to 12.3% of all outstanding home loans.

In 2008 the collapse in the wholesale lending market, new capital adequacy rules for lending institutions and the withdrawal of some non-UK lenders reduced the availability of mortgage finance and resulted in an increase in deposits for first time buyers. While the situation has eased somewhat recently, the easy availability of 95% and 100% mortgages is unlikely in the foreseeable future.

Record low interest rates for the past two years have cushioned those with heavy levels of mortgage debt. This cannot last. The prospect of interest rate rises is likely to have a particularly severe impact on the estimated 3.5 million people in the UK who are on interest only mortgages. This type of mortgage is considerably less popular than it once was between 2002 to 2007 interest-only mortgages rose from 13% of those taken out to 33% as house prices boomed. Current proposals from the FSA would effectively abolish this type of product according to the Council of Mortgage lenders.

Stability in the housing will require a mix of measures.

- The first priority has to be to create a substantial increase in the number of homes of all types. The numbers of homes for owner occupation, private rent and social rent all have to be increased.
- With problems in both current private sector and public sector models, the traditional methods of financing new homes are not working. New models and a range of new sources of finance (e.g. pension funds) need to come into play.

- We want to avoid the mistakes of the past (e.g. poor quality housing mass together which degenerated into sink estates). Multi-tenure developments for sale or rent cross-subsidising the social rented sector might be an option worth considering.
- Good design which is flexible and carbon efficient in communities with good infrastructure (roads, schools and services) is vital. The financing of the necessary infrastructure is crucial for housing.
- We need to explore fiscal incentives such as council tax rates on empty homes or second homes. Stamp Duty reforms may also help the private rented sector
- We advocate the use of Strategic Housing Assessments which can be used to understand, analyse and communicate the demand for housing in the local area.