findings

Housing Research 126
September 1994

Difficult times for all housing sectors

The JRF Housing Finance Review 1994/95 provides a comprehensive picture of the current finances of public and private housing. Set in the wider context of economic prospects and overall public expenditure plans, this year's Review illuminates continued weakness in the home ownership market, the lack of private rented supply and the underlying decline in social housing investment. Among the key findings are:

- **Over a quarter of a million home-owners have been repossessed since 1988.Only right-to-buy sales have prevented an overall decline since that year in the proportion of households owning their homes.**

- **New first-time buyers' mortgage costs have fallen to under 18% of their average incomes, but this is still higher than in 1984. The mortgage-to-income ratio for all home-buyers fell from 12.5% in 1990 to just over 10% in 1993, but remains above the 9.1% average during the 1980s.**

- **Public housing investment in Great Britain fell by 37% in real terms between 1979/80 and 1993/94. Even allowing for £850 million of private finance, the 1994/95 total investment in social housing in Great Britain will be the lowest level in real terms for several decades.**

- **Council and housing association lettings to new tenants, because of the one-off housing market package, were higher in 1992/93 than at any time since 1979/80. However, lettings are now set to fall below the lowest level of the 1980s.**

- **Council housing in Great Britain is £109 million in surplus in 1994/95; it is no longer a net recipient of 'bricks and mortar' subsidy. By 1996/97 council housing in Britain is projected to be generating an annual surplus of some £750 million.**

- **Rents of new housing association lettings are now only some 20% below average market rents and the average mortgage costs of first-time buyers. Average rents of nearly £60 for a two-child family extends the housing benefit 'poverty trap' up to gross earnings levels of £267 per week; this is within £10 of average male earnings and covers around half the population in work.**

- **Housing Benefit costs are expected to double in real terms in the decade to 1996/97. Increased Housing Benefit costs for council tenants will be largely offset by subsidy reductions, but rent allowance costs will grow by almost 240% in real terms. The rent increases will also add to inflation and thereby increase costs for other DSS budgets.**

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Housing and the economy

The data drawn together for this year's *Housing Finance Review* highlight a number of broad trends:

- The halt in the growth of home-ownership.
- The continuing weakness in the home ownership market due to the overhang of the recession.
- The limited resurgence of the private rented sector, which has slowed down and is likely to be reversed as the housing market recession eases and homes made available temporarily for rent are sold.
- The underlying fall in social housing investment as part of a more general decline in public asset creation.
- The move towards ending the general 'bricks and mortar' subsidising of housing, the consequent rise in rent levels and the switch towards means-tested personal subsidies.

Onward march of home ownership halted

If it were not for continuing right-to-buy (RtB) sales, the proportion of owner-occupied dwellings in Great Britain would have declined from 60.3% in 1988 to just 60.0% in 1993. Including RtB sales, owner occupation reached 66.5% by 1993, and RtB sales now account for 10% of the total home ownership sector.

This standstill in home ownership rates clearly results from the housing market recession, and in particular from the quarter of a million homes repossessed over the last four years.

Continued weakness of the home ownership sector

There are, however, continuing difficulties ahead for the owner-occupied sector. One-and-a-quarter million households still have mortgages greater than the value of their home. The overall level of equity is down to £720 billion and equity withdrawal, which at its peak accounted for 7% of consumer spending, virtually dissapeared in 1993.

Purchase rates by young households have been declining for more than a decade, and labour market and demographic trends are less favourable to growth than in previous decades. If the Income Support assistance with mortgage costs is removed (on top of the phased abolition of MIRAS), the sector may decline, rather than grow slowly.

Further, there has been no introduction of a mortgage benefit scheme to paralell housing benefit for tenants and so the level of posessions is still likely to remain high, given continued high levels of mortgage arrears (albeit declining a little this year).

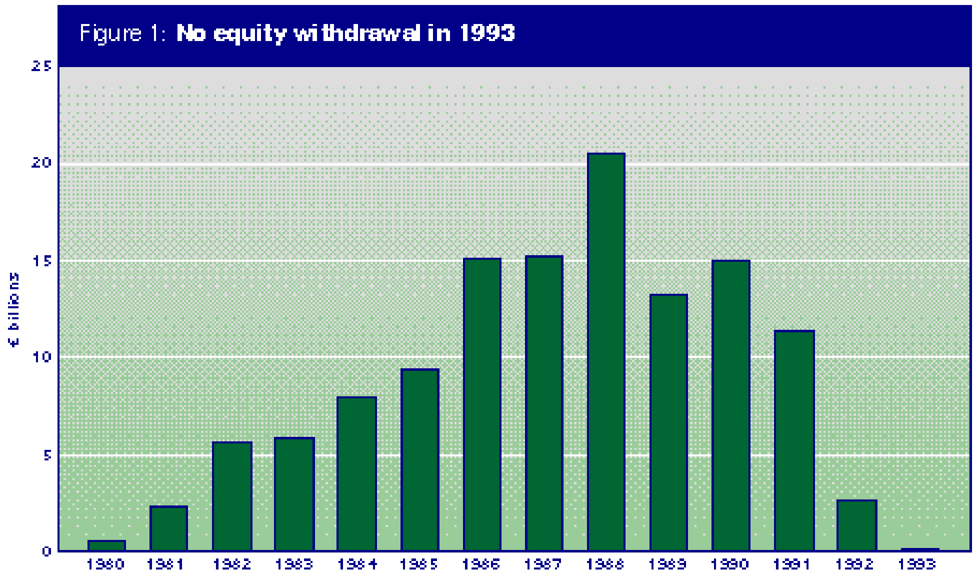
Supply of private rented accommodation remains low

The private rented sector has continued to grow since 1988, but the rate of growth fell back in 1993 and the sector still accounts for less than 10% of all dwellings in Britain. With no tax breaks in place to succeed the now-ended BES initiatives, the recent growth in the sector is likely to be reversed as the housing market recession eases. The phased abolition of MIRAS will not, on its own, provide a 'level playing field' with home ownership, which will still benefit from having no capital gains tax.

Underlying investment in social housing falls

Declining public sector asset creation

The decline in housing investment over the last fifteen years is a large part of the wider decline in public sector asset creation. Overall, public sector asset creation is set to fall by a further 8% in real terms by 1996/97, but net provision for local authority investment is set to fall by over 25%. The Government's view is that public sector investment must be curtailed to reduce public borrowing, so as to smooth the path for private sector economic recovery. This view pays little heed to the positive employment and economic impact of public sector asset creation.



See Table 2

The gross cost of housing investment in recent years has been substantially offset by capital receipts from council house sales. The deferred use of receipts raised during the 'capital receipts holiday' contributed to the lower than anticipated outturn figure for the PSBR in 1993/94 of £46 billion.

Council investment to fall

While capital receipts from last years 'holiday' will sustain housing investment by English authorities in 1994/95, the prospects in the following years are bleak, especially if, as expected, the Single Regeneration Budget runs down the Estate Action programme in favour of employment-lead community development programmes.

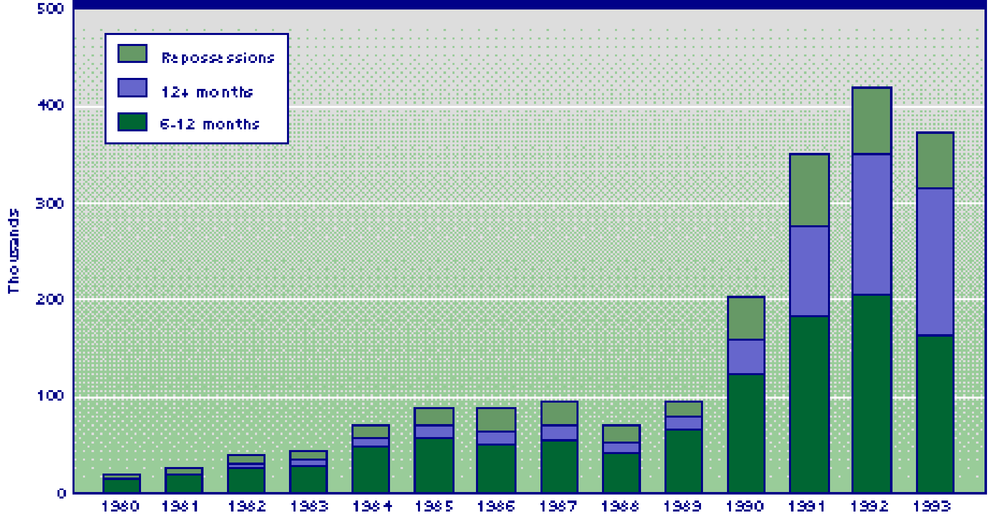
These capital constraints will put even greater pressures on English councils to either raise rents or explore options for stock transfers. There are also, albeit less severe, downward trends in planned council investment in Scotland and Wales.

Housing Corporation investment falls from peak

The housing market package and private finance boosted housing association investment in 1992/93 to over £3.25 billion. Since then there have been offsetting reductions in the Housing Corporation budget. In real terms investment in 1996/97 will have fallen back to 1991/92 levels, despite a greater dependence on private finance.

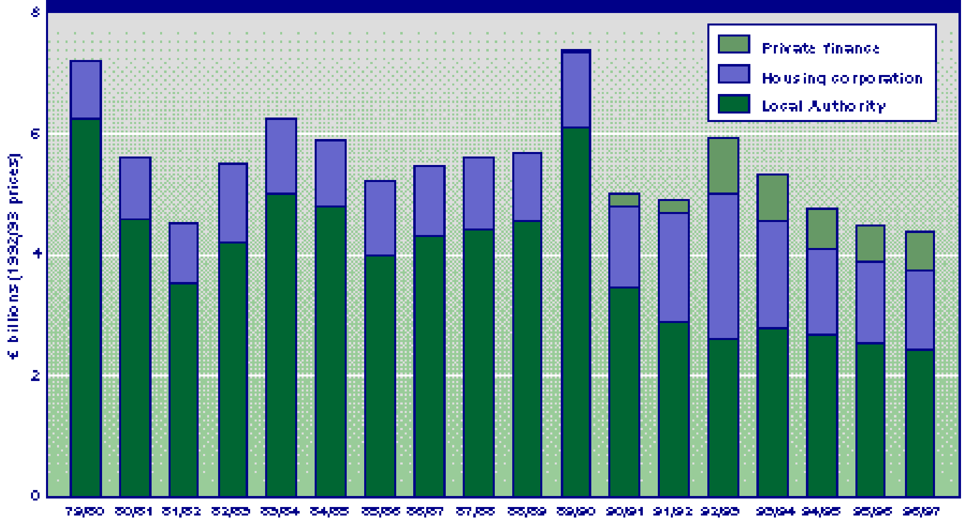
Housing Association Grant (HAG) for rented housing is planned to fall back to 1989/90 levels (less than half the 1992/93 provision), while funding for low-cost-home-ownership initiatives is to be expanded. The convergence of the costs of renting and buying, however, has largely removed the rationale for conventional shared ownership schemes.

Figure 2: **Mortgage arrears and repossessions remain high**



See Table 39

Figure 3: **The planned decline in social housing investment in England**



See Table 48 and 49
LA investment includes HATS and Estate Action Programme

New lettings hold up

Despite the virtual cessation of local authority new building, down from 75,000 in 1980 to just over 1,000 completions in 1993, net local authority lettings to new tenants fell by just 45,000 over the period because relets increased (despite the initial impact of the right-to-buy).

In 1992/93 that decline was more than offset by the increase in housing association lettings, boosted by the housing market package to 109,000 - 64,000 more than in 1979/80. Total lettings of social sector dwellings were therefore higher in 1992/93 than in 1979/80. This peak level of lettings helped reduce the numbers of homeless households in temporary accommodation by 9,000, reversing the previously ever-upward trend.

That positive achievement has been overshadowed by the Government's controversial proposals to restrict the rights of homeless households. In future years, as the output of new housing association dwellings is cut back, total social sector new lettings are set to fall substantially below 300,000 per annum. However the homelessness and waiting list pack is shuffled, there will be less new lettings available to meet housing needs.

General subsidising of housing coming to an end

Declining subsidies

As predicted in last year's Review, in 1994/95 council housing in Britain ceased to be a net recipient of general housing subsidy and moved £109 million into surplus. The decline in council housing subsidy since 1990 has been paralleled by a decline in the costs of mortgage interest tax relief, partly as a result of lower interest rates and partly as a result of the phased withdrawal of MIRAS, relief being limited to 20% of eligible mortgage interest in 1994/5 and 15% next year.

Nonetheless even with relief limited to 20% of eligible mortgage interest in 1994/95, home-buyers still benefited by an average £350 per year.

From subsidy to surplus

In England and Wales only a minority of councils still receive any basic housing subsidy. Most receive rents that more than cover their operating costs. A contribution from the resulting 'rent surpluses' has to be made towards the cost of housing benefits.

Housing subsidies to English authorities are projected to fall to £712 million in 1996/97, while rent surpluses (from authorities receiving no housing subsidy) are projected to rise to £1.4 billion (offsetting more than 25% of the cost of housing benefits for council tenants). In Wales basic housing subsidies are set to fall to just £1.4 million, while rent surpluses rise to £85 million. In Scotland councils are not required to generate rent surpluses, but this year's housing subsidy amounts to just £26 million.

Rents and Mortgages Converge

As subsidies fall, council and housing association rents have have had to rise. At the same time, average mortgage costs have fallen as interest rates came down from 15% in 1990 to 8% in 1993. The average mortgage costs for all home-buying households now represent just over 10% of their normal gross weekly income.

Rents of new lettings of housing association schemes are now only 20% below the average mortgage repayments of new first-time

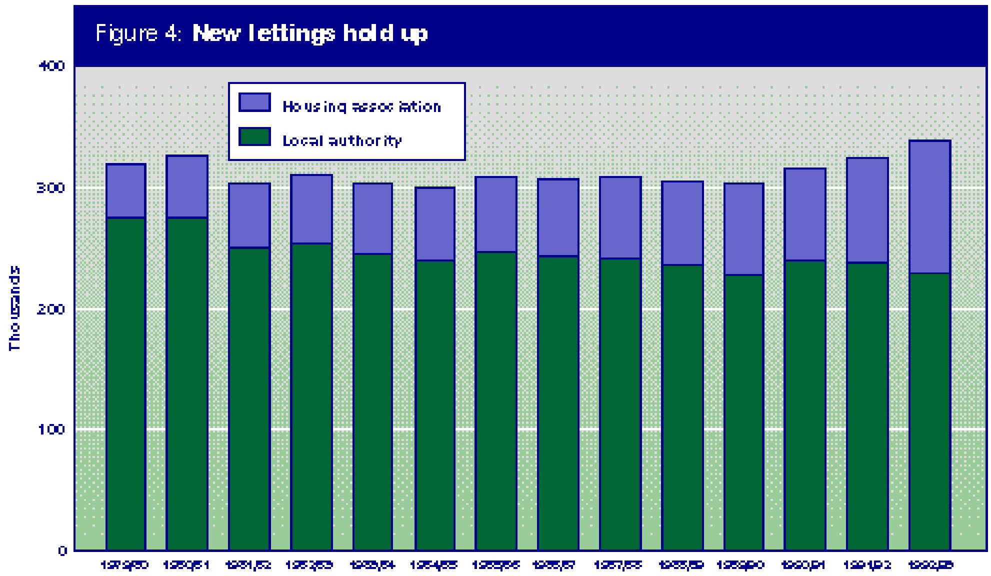
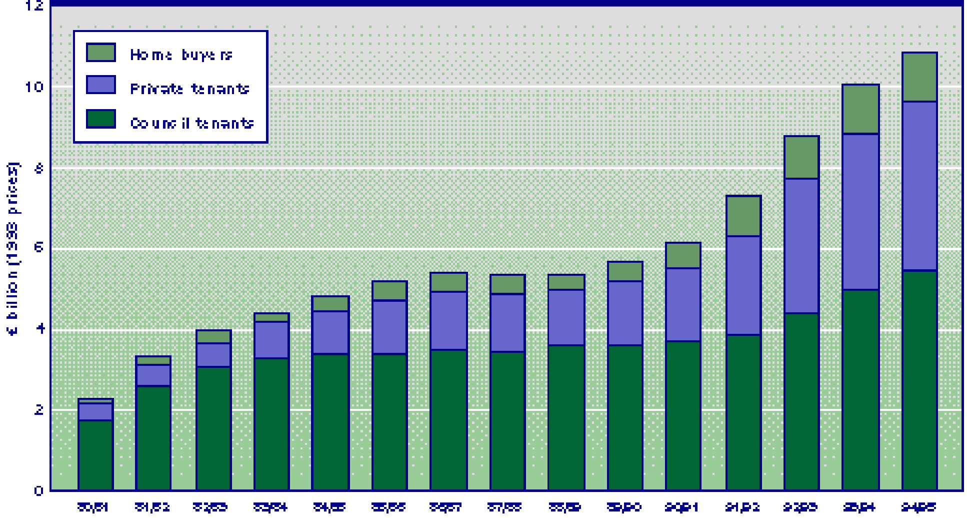


Figure 4: **New lettings hold up**

See Tables 30,31 and 33

Figure 5: **Growth of means-tested help with housing costs**



See Tables 01, 04 and 05

purchasers, and are on a par with the average repayments of all home-buyers. Although the housing costs of tenants and home-buyers are converging, their incomes are diverging. In 1992 home-buying household heads' incomes were, on average, some 180% higher than tenants. In 1976 they were only 70% higher.

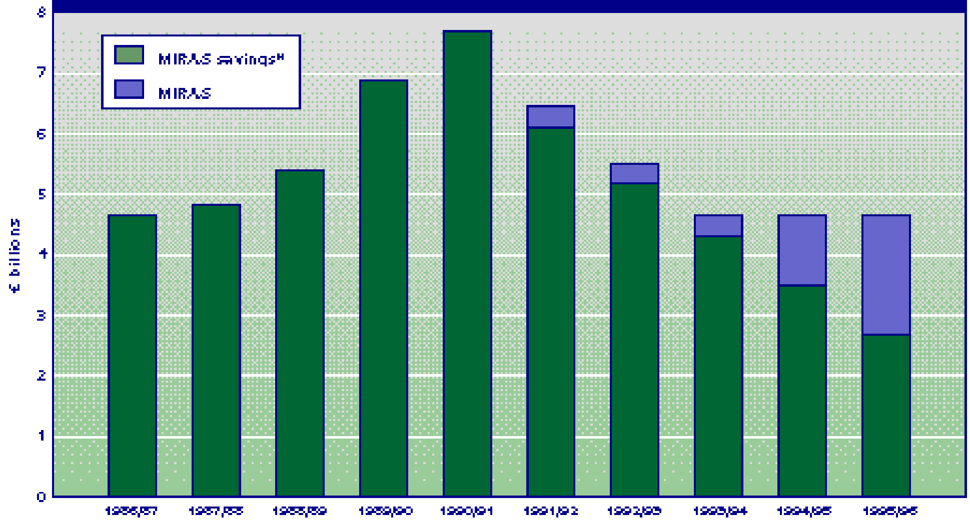
The concept of low rents for those on low incomes has thus been substantially eroded and therefore the cost of means-tested benefits to cover rents for those on low incomes has increased

Cost of means-tested benefits increases

These costs have grown substantially in real terms since 1980 as 'bricks and mortar' subsidies to council housing have been phased out and MIRAS costs have been trimmed. Housing benefit for private and housing association tenants has grown ten-fold, while Income Support help with mortgage costs has grown eight-fold. Over five million households now rely on means-tested help with their housing costs.

While the costs of Income Support mortgage help have now peaked, private sector housing benefit costs are expected to continue to grow to £5.5 billion by 1996/97. The scope for trimming those costs, without endangering the £5.25 billion in private finance that housing associations are expected to raise in the next three years, are in practice very limited.

Figure 6: **MIRAS costs cut back**



* savings are shown for the abolition of higher rate relief, cuts in basic rate relief to 20%, and to 15% in 1995/96

Conclusion

The phasing out of MIRAS has saved the Treasury some £2bn so far. None of this has been diverted to alleviating the difficulties stemming from the housing market recession, nor to addressing the problem of 'kick-starting' the supply of private rented housing, nor to ensuring that there is sufficient investment in social housing to meet housing need. The next reduction in MIRAS to 15% will yield a little under £1bn. Analysis of the data in this year's *Housing Finance Reveiw* and the links between housing and the overall performance of the economy (identified in the recent JRF report *A competitive UK economy: The challenges for Housing Policy)* suggest that there is a case for this saving to be re-directed at the problems faced by each sector of the housing market.

About the study

The JRF Housing Finance Review is a comprehensive source document that draws together all the key data on UK public and private housing in a coherent and accessible format. These are set in the wider context of related data on public spending and economic performance. The juxtaposition of such diverse data gives new insights into major issues affecting housing today.There are about 120 tables set out in a way that allows relationships between different series to be seen clearly and a succinct text with nearly 40 charts.

The Review includes articles examining the facts and fallacies relating to capital receipts, labour market and demographic changes, LSVT and local housing companies, lettings and homelessness, rents, benefits and work disincentives, and progress since the Duke of Edinburgh's 2nd Inquiry into British Housing.

The Review was compiled by Steve Wilcox, of the University of Cardiff. The generous assistance of officials from many government departments, and the extensive use of a wide range of CSO and HMSO statistics and documents are fully acknowledged. Contributors to the 1994/95 Review are Janet Ford, Loughborough University, Angela Evans, Jackie Dix and Chris Allen from the University of Cardiff, and Richard Best from the Joseph Rowntree Foundation.

Further information

The 1994/5 Housing Finance Review by Steve Wilcox is published by the Joseph Rowntree Foundation.

A competitive UK economy: The challenges for housing policy by Duncan Maclennan is also published by the Foundation and is available from BEBC distribution, priced £8.50 (ISBN 1 872470 91 2)

Related *Findings*

The following *Housing Findings* look at related issues:

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Private Renting after the BES (Dec 93)
A Competitive UK economy: The challenges for housing policy (Jun 94)

For further information on *Findings*, or the *Summaries*, call Sally Corrie on 0904 654328
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