

Response to the Labour Party Housing Policy Review

How do we meet families' aspirations for good housing and a good home?

Submission by the Joseph Rowntree Foundation

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Introduction

The Joseph Rowntree Foundation (JRF) welcomes the Labour Party Housing Policy Review and its commitment to look across the housing system in its search for policy solutions. We support a review of housing policy focused on enabling people to access decent quality, secure and affordable housing. A key role of housing policy should be to intervene in market failures in order to allow the market to work more efficiently. This does not mean setting tenure targets or micro-managing the housing market. However in the UK context of persistent house price volatility a housing policy that focuses on achieving greater stability in the market through using existing policy levers more effectively would be welcome.

Housing policy should also aim to deliver fairness between different groups of people and different generations, with a keen eye on meeting the housing needs of the most vulnerable. It must also be sustainable in the longer term, both to weather the storm of changing market and credit conditions and to address the challenge of climate change.

We would suggest that no housing tenure in itself represents a universally appropriate policy outcome. This does not mean that we need tenure neutral housing policies but it does mean that we need to consider the unintended consequences of policy decisions. JRF's recent report [Tackling housing market volatility in the UK](#) (Stephens, 2011) highlights how the UK's model of home-ownership is under severe strain. It also argues that successive governments' focus on home-ownership risks perpetuating inequality. It is this wider social inequality that points to the need for housing policy to make clear links to, and work together with, other key areas of social policy including welfare reform, employment, economic development, health, social care and education. Housing policy must aim to better understand the differences between local housing markets and the national picture. It should be mindful of its impact on local markets and the knock-on effect from national policy changes. This also requires a more finely tuned approach to the balance between housing supply and demand in housing policy. Lastly, policy needs to avoid distorting people's preferences for one housing tenure over another.

The papers that form this response were commissioned by JRF. They take into account both JRF and wider evidence. The views in the following sections are those of the authors and not necessarily those of JRF.

Section 1 The changing landscape

Ian Thomas with Kelly Buckley, David Clapham, Peter Mackie and Scott Orford

Key policy messages

- Housing policy needs to consider young people, rather than simply the ageing society. Young people are delaying family formation, facing short-term changes in their housing expectations, and are increasingly having to share accommodation.
- Housing is about more than just home-ownership and there needs to be more emphasis placed on ensuring better access to all forms of housing.
- A shortage of appropriate housing exists in the UK, with this being linked to the persistence of cyclical 'boom and bust' in the UK housing market. Improving housing supply can therefore limit housing market volatility in the long run.
- Understanding local housing markets is crucial in terms of developing policy and assessing its impact.
- Public sector cuts are having negative effects on housing support service provision, which in turn is likely to contribute to an increase in homelessness.
- Changes to welfare benefit entitlements will have significant impacts: forcing many people, particularly in London, into concentrations of poorer accommodation and forcing dependent young people to leave the family home prematurely.

Introduction

This review stems from a major UK-wide study currently being undertaken by the authors and funded by the Joseph Rowntree Foundation (*Young people and housing: identifying policy challenges and solutions for 2020*, see www.jrf.org.uk/sites/files/jrf/young-people-housing-2020-project-summary.pdf). The study explores key policy challenges and solutions in future housing markets, with the specific aim of improving the housing of young people aged 16 to 30 across the UK. Though some of the evidence presented here has been drawn from the young people and housing project, it has been necessary to synthesise a wider body of literature, including other studies commissioned by the JRF, in order to provide a broader picture of the changing landscape of housing. In this paper we consider each of the questions posed in turn before drawing out a series of broader policy messages relating to the changing landscape of housing in the UK.

What effect will significant demographic trends have on household formation and household type in the future?

Major demographic trends over the past several decades affecting family formation include the steady decline in the proportion of marriages and the increasing age at first marriage, in addition to the wider trend towards delays in having children (ONS, 2010, pp. 23). An ageing population (Pattison, *et al.*, 2010, pp. 22) is also likely to affect the types of household formation seen, and the demands placed upon the housing market; for example the possible retention of older cohorts within the housing market for longer periods of time and an increased demand for suitable retirement properties. However, whereas previously households were able to close the home-ownership gap in later life (Bottazzi, *et al.*, 2010), Stephens (2011, pp. 22) suggest that in light of high house prices relative to incomes and limited mortgage supplies, this may no longer be possible. Consequently, burden on the state will increase when these households reach retirement without the mitigation of pensioner-poverty which home-ownership provides (Stephens, 2011:8).

The main change in household type has been the increase in the number of single person households, with this projected to continue up to at least 2033 (DCLG, 2011a). A study conducted by Chandler, *et al.* (2004) using longitudinally linked census data has demonstrated the increasing propensity towards single living, especially for younger cohorts. The tendency to continue to live alone was also highlighted (Chandler, *et al.*, 2004), suggesting that single households, and single housing, may become a permanent feature of the UK housing market.

Wilcox (2011) and Pattison, *et al.* (2010) indicate that although patterns of migration contribute to increasing household numbers, the changes they create are more volatile than long-term demographic factors and are therefore difficult to predict (Pattison, *et al.*, 2010, pp. 22). Latest statistics indicate that while gross immigration has levelled off in recent years, net immigration has remained at 163,000–233,000 persons per year, owing to declining numbers of emigrants (Wilcox, 2011, pp. 60).

Despite media panics surrounding immigration and access to social housing, Robinson (2010, pp. 8) indicates that a relatively small proportion of new lettings by social landlords have been to foreign nationals. Data summarised by Perry (2008, pp. 13) suggests that overwhelmingly, new migrants use the private rented sector; however this can impact on local housing markets by exerting pressure on private rental prices. Rather than being free riders, new migrant households are likely to be unaware of the UK housing system, including their eligibility

and how to access to social housing (Perry, 2008, pp. 13; Robinson 2010, pp. 11), as well as being subject to overcrowding and homelessness, and exploitation by landlords in the private rented sector (Robinson, 2010, pp. 8). Therefore, rather than focusing on immigration as being inherently problematic, Robinson (2010, pp. 14) urges that the underlying shortage in the housing supply needs to be addressed.

The age distribution of minority ethnic households is quite different to the general population, with there being a higher proportion of younger headed households than older; 12 per cent of those aged 16 to 24 were headed by a black and minority ethnic (BME) person compared to 2 per cent for those over 75 (Clarke, *et al.*, 2008, pp. 17). Clarke, *et al.* (2008, pp. 17) further highlight that BME households are likely to grow rapidly in the future, with certain BME households having specific housing needs. For example older South Asian families are likely to cohabit with their children, particularly their sons, making average household sizes larger than white British households (Clarke, *et al.*, 2008pp. 18).

However data from a study conducted by JRF into the housing aspirations of white and South Asian women indicted that both groups shared similar housing aspirations and strategies for achieving their housing goals (Harries, *et al.*, 2008). Furthermore, there may also be implications for culturally diverse communities, with both groups in the JRF study sharing aspirations for mixed communities. However cultural differences in less well-established communities were a source of apprehension (Harries, *et al.*, 2008, pp. 2). Achieving such diversity will be a complex task, and rather than a top down approach, one which is more sensitive to local circumstances may be more successful (Perry, 2008, pp.12).

What will the impact of government's policies on housing be and how will it vary around the country?

Housing-related support services have been identified as one of the key drivers of young people's housing choices, with it being particularly important in meeting the needs of vulnerable households (Clapham, *et al.*, 2010, pp. 34). The removal of ringfencing for Supporting People funds in Scotland and England is likely to increase the likelihood of cuts in these regions, with there already being evidence of relatively high levels of cuts being implemented in local authorities in England; Camden has experienced the largest cuts of 60 per cent (Bury, 2011). When combined with cuts to area-based grants removing ringfencing this places further strain on Supporting People funds , with local authorities

being compelled to reduce housing care and support services in order to make savings (National Housing Federation, 2010).

Homeless Link's Survey of Needs and Provision (SNAP) has documented the effects of current spending cuts on homelessness service providers in England. SNAP indicated that there has been a 6 per cent reduction in projects primarily funded by Supporting People (Homeless Link, 2011a, pp. 1). Furthermore, 50 per cent of service providers had experienced a reduction in income compared to the previous year, of which 63 per cent stated that this had impacted their clients, including reduction in services and contact time, as well as the closure of some services (Homeless Link, 2011a, pp. 2). However, this may be an underestimation of the full effects of cuts on services, as the survey was conducted before local government settlements for 2011/12 were known (Homeless Link, 2011b, pp. 52).

The reduction in Local Housing Allowance (LHA) to cover only the lowest third (30 per cent) of local rents will mean fewer properties are available at a rent covered by LHA, with more people having to make up the shortfall (Clapham, *et al.*, 2010, pp. 33). Furthermore, increases in non-dependent deductions may leave some households unable to meet housing costs, and in some cases influence households' willingness or ability to share accommodation (Cymorth Cymru, 2011, pp. 5). Cymorth Cymru (2011, pp. 5) suggests that this reduction may result in an increase in homelessness presentations, with older children being asked to leave the family home for financial reasons. Though it is too early to tell from homelessness data whether this is the case, it should be noted that homelessness acceptances in both England and Wales have increased between 2009/10 and 2010/11 (DCLG, 2011b; WAG, 2011).

In their discussion of Universal Credit, the Building and Social Housing Foundation (BSHF) suggests that the creation of Affordable Rents within the social rented sector, with tenancies being up to 80 per cent of market rents, will have varying effectiveness dependant on the local rental market (BSHF, 2011a, pp. 15). For example in areas where there are relatively high market rents, the possibility exists for Affordable Rents' to be substantially higher than existing social rents (BSHF, 2011a, pp. 15). Furthermore there are possible spending implications in the medium to long term, if Housing Benefit recipients who were previously in lower cost social housing decide to live in comparatively more expensive Affordable Rents, requiring higher Housing Benefit payments (BSHF, 2011b, pp. 3).

Research conducted by the Cambridge Centre for Housing and Planning Research (CCHPR) suggests that claimants in London and the South Fenton, 2010a, pp. 2). The peculiarities of the London market, such as the high levels of private renting and the polarisation of incomes and rents, means that should the demand from low-income households be reduced by changes in the LHA, there will almost certainly be other tenants able to replace them (Fenton, 2011, pp. 8). Therefore in comparison to other parts of the country, 'landlords in London will have fewer incentives to reduce rents in response to the reforms' (Fenton, 2011, pp. 8). This may result in migration of LHA tenants unable to afford rent, to their concentration within cheaper areas (Fenton, 2010b, pp. 10), and possibly to housing of poorer condition. Ferrari and Rae (2011, pp. 8) have suggested that areas at the extremes of the housing market (in the most and least deprived areas) tend to be disengaged from the national market, and that deprivation and volatility go hand-in-hand. Welfare policies which increase the polarisation of area deprivation or alter local housing markets may lead to increased disengagement from the national picture, as well as further limiting housing wealth transfers (Ferrari and Rae 2011, pp. 8).

There is currently an undersupply in UK housing (Pattison, *et al.*, 2010, pp. 23; Stephens, 2011), previous research highlighting that the levels of new building had reached 'historically low levels' in 2009 (NHFAU, 2009, pp. 12). It has also been suggested that the boom and bust cycle in the UK housing market is a persistent feature of the UK housing system, and is made more likely by the underlying shortage of housing (Stephens, 2011, pp. 3). Therefore, policies that negatively impact on new housing construction, both public and private builds, or that inhibit the private rental sector, are likely to have wider impacts in terms of meeting this undersupply, and in the longer term may perpetuate (and potentially exacerbate) volatility in the house price market (Stephens, 2011, pp. 3). In a recent JRF project, stakeholders have indicated that current cuts to UK government spending on social housing will worsen the undersupply of affordable housing (Clapham, *et al.*, 2010, pp. 26).

What will the housing market look like in 2015, and how significant will regional variations be?

Forecasts of housing markets are limited at best, due to the vulnerability of the market to external and sometimes unexpected shocks. Analysis undertaken by PricewaterhouseCoopers (PwC) suggests that although house prices increased strongly in the year to spring 2010 (PwC, 2011, pp. 10), since mid-2010 they have fallen, and may continue to be subdued for some time to come (PwC, 2011, pp. 3). However, medium-

term independent forecasts for the UK economy produced in the same report do indicate house prices will increase in 2013 and 2014 (PwC, 2011, pp. 17).

There have been longstanding changes in the tenure mix of the UK housing market, which some commentators believe may continue. Pattison, *et al.* (2010, pp. 21) claim that should tenure trends persist, then the private rented sector will be larger than the social rented sector by 2013, and by 2020, one in five households could be in the private rented sector. However, other sources indicate that although the sector may increase in number, the total proportion in the private rented sector is unlikely to change (Ball, 2010, pp. 4). Ball's analysis was, however, based on the assumption that housing benefits and social housing remained broadly stable (Ball, 2010, pp. 14).

There are large regional variations in tenure, for example 20 per cent of households in London are in the private rental sector, compared to the UK figure of 14 per cent (Clapham, *et al.*, 2010, pp. 17). Analysis conducted by Fenton (2010, pp. 27) has highlighted several areas of the UK where the proportion of housing tenancies supported by LHA/HB is above 50 per cent. These are towns and cities in formerly industrial regions, in coastal areas, and in East London and its Kent and Essex hinterland. The effects of policies will therefore vary with the structure of local housing markets. For example changes in welfare benefits may force a reduction in rents in areas with high LHA tenancies, with landlords being more dependent on sustaining LHA tenancies (Fenton, 2010, pp. 28). Policies that result in shifts from social to private renting may also have greater adverse effects in areas with already overloaded private rental markets.

In terms of the youth housing market, changes in the Single Room Rate (SRR) to include single persons under the age of 35 may result in different household formations, with thousands of young people living in self-contained flats being forced to find shared accommodation (Crisis, 2011, pp. 1). Crisis suggests that this may disproportionately affect those living in rural areas and small market towns, where this type of accommodation is in short supply (Crisis, 2011, pp. 1). There is also the fear that changes in SRR may increase the number of houses in multiple occupancy in deprived areas (Crisis, 2011, pp. 3). With a shortage of affordable housing and increased barriers to social housing, especially for young single people, there will be a growing importance of the private rental sector in young people's housing pathways. Evidence already exists of a split in opinion regarding private renting, between young

people who view it as just one step along their housing pathway, and those who view it with more permanency (Kelly, 2010, pp. 1).

How are changes in the housing market affecting people's expectations and aspirations for housing and decisions about their lives?

Based on survey data from 2009, it has been estimated that nearly 2.8 million people age 18 to 44-years-old were delaying starting a family due to the lack of affordable housing (Turffrey, 2010, pp. 9). Furthermore, Shelter findings indicate a large number of people are having their relationship choices constrained by a lack of affordable housing, with nearly a quarter of adults indicating that either someone they knew or they themselves, were forced to remain living with a partner after having separated as they were unable to move out (Shelter, 2010a, pp. 14).

A long-term preference ('in ten years time') for home-ownership has existed in the UK for the past two decades (Pannell, 2007) and this may be attributed in part to culturally engrained preferences towards certain tenures from a young age (Rowlands and Gurney, 2000). Short-term preferences ('in two years time') have been much lower, especially among younger age groups (Wallace, 2010, pp. 8). Evidence is also emerging that indicates that post the 2008 recession, lower demand for home-ownership exists for potential new entrants, at least in the short term (Wallace, 2010, pp. 8). Together this suggests that in the longer term, preferences may be more stable, due to their cultural origins, however short-term preferences are affected by economic and personal shocks. Furthermore, Pannell's analysis highlights that historically there has been an increasing disparity between the long-term and short-term preferences towards home-ownership for young people (under 25), possibly indicative of a wider delay in home-ownership to later life (Pannell, 2007, pp. 11).

Despite these preferences for home-ownership and reductions in house prices, significant affordability pressures exist which constrain aspirations (Wallace, 2010). Raising a deposit is regarded by an increasing percentage of people as being the main barrier to entry into this home-ownership, 62 per cent in June 2011 compared to 42 per cent in June 2008 (BSA, 2011, pp. 2). Furthermore, access to mortgages is likely to be unaffordable in the short-term due to the squeeze on household finances from higher taxes and rising consumer prices (BSA, 2011, pp. 1).

This has led to a rising expectation of a delay in home-ownership by younger households and an extended dependency on the parental home (Clapham, *et al.*, 2010, pp. 11). However welfare benefit changes will disproportionately affect certain individuals' abilities to return home, for example parents in receipt of Housing Benefit will face financial sanctions if their non-dependent children return home. Furthermore, research conducted by ECOTEC (2009) has suggested a growing proportion of young people in the private rented sector as an alternative to owner-occupation. Interviews with stakeholders in the Clapham, *et al.* (2010) study indicate a growing concern that this will lead to young people being forced to share accommodation based on affordability issues, with this household formation being borne out of necessity rather than choice (Clapham, *et al.*, 2010, pp. 12).

A new spatial volatility in regional markets, identified by Ferrari and Rae (2011, pp. 23), has led to the spread of problems with affordability throughout the country. This in turn has affected views on home-ownership, with data from the BSA property tracker survey indicating that there are regional variations in consumers' views, linked to housing affordability (BSA, 2011, pp. 1). For example London appears to have the worst views of home-ownership, with 34 per cent agreeing that now was a good time to buy, compared to the North East, where 46 per cent agreed. The high loan to value (LTV) and the scale of deposits required to buy a home may therefore exacerbate housing expectations. Furthermore, Pannell suggests that there may be regional preferences towards certain tenures; for example in Scotland a lower proportion of people stated preferences towards home-ownership, with this being attributed to a greater importance placed on social housing north of the border (Pannell, 2007, pp. 7). This was also reflected in research conducted by ECOTEC (2009, pp.5), with some of the young people in their study identifying social housing as a key aspiration. Practitioners involved in this research indicated the need to rethink the home-ownership ideal.

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Section 2 Places where people want to live

Connie Tang and Christine Whitehead, Cambridge Centre for Housing and Planning Research, Cambridge University, with Alison Jarvis, Joseph Rowntree Foundation

How can housing support safe, healthy communities where people are able to work and their children can get a good education?

Housing plays a key role in providing places where people want to live. In existing communities, the statutory physical requirements (Decent Home Standards) have improved the quality of existing homes, particularly social housing stock, over the last ten years. The redevelopment of housing through urban regeneration in particular can maintain the viability of the existing stock, have a positive impact on the local economy and increase the value of other infrastructure investment.

Other strategies concerned with the physical fabric of place include:

- designing in attractive, accessible outdoor places with good transport facilities to encourage adults to visit the outdoors regularly
- applying defensible space features (or design against crime) on new developments or neighbourhood renewal projects to reduce the incidence of crime and fear of victimisation (OPDM, 2004)
- providing well-maintained green outdoor spaces to reduce opportunities for crime and improve informal surveillance
- aiming for close proximity to facilities and services to increase social connection to the neighbourhood and reduce social isolation.

Strategies that deal effectively with social, even ethereal, aspects of place are less easy to specify on a generalised basis. However, it seems clear that for new developments in particular, mixed tenure schemes are preferable to single tenure plans. They avoid concentrations of poverty (or wealth) and at their best can enable greater movement within the housing system, take people out of unsatisfactory neighbourhoods (and improve the neighbourhoods left) and improve people's life chances (Monk, *et al.*, 2011). However, this is a product of how UK housing systems have developed rather than being inherent in tenure itself (Lupton, *et al.*, 2009). A policy of tenure mix should not be seen as a panacea, particularly in the context of regeneration where success also hinges on the sensitivity of application, and the support of existing residents.

Partly by definition, most empirical literature on communities is based upon case studies and the particularity (rather than generality) this implies relates to the nature of place itself. Recently published qualitative research into the dynamics of the relationship between poverty and place confirms the importance of locality (Cole, *et al.*, 2011); what people want from their housing and communities is not only determined by their socio-economic or demographic profiles – it is also shaped by their shared geography and history.

‘Place matters’ not just in terms of access to opportunity, but also in terms of identity. This poses a particular challenge to policy because people’s sense of belonging may matter most in those neighbourhoods with the bleakest economic prospects. Interventions in some housing markets thus require corresponding interventions in relevant labour markets (and vice versa) if investment is to be productive.

In places where the nature of industrial restructuring has left other aspects of people’s lives fragile and insecure, the collective identity of community can be a stabilising force. This stability is supported by ideas that have become unfashionable (such as the long-term security of social housing) and undermined by regeneration projects that are too big, too bold and too dependent on the vagaries of the market. There is a need to be wary of one-size-fits-all policy measures, and places facing long-term economic decline and entrenched poverty will not see their trajectories turned around by housing (or welfare) measures on their own (Batty, *et al.*, 2011).

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Section 3 Housing supply

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Key messages

The under-supply of housing

- The key causes of lack of housing supply are a lack of profitability for the private sector – linked to land supply, finance and planning – and reduced subsidies for affordable housing provision coupled with a generally pro-cyclical funding regime.
- The problem is not just restricted to the UK. Under-supply is a growing problem in western Europe and indeed internationally.
- While there are problems with the planning system and developer behaviour, there are also demand-side issues relating to borrowing. These affect the viability of developments especially in the current economic climate. These, together with rapid policy change, are increasing the risks to the profitability of development into the medium term.
- In the past regeneration has increased housing supply but as the 'best' brownfield land is re-used, what remains is likely to be less viable (e.g. airfields in rural Lincolnshire) and might be increasingly unsustainable.
- Equally there has been an increasing contribution from change of use of existing buildings – although this is also hampered by regulation and demand and may not be a long-term strategy.
- The largest building programmes have always come from greenfield and easy large brownfield sites which are no longer readily available.
- Whether greenfield or brownfield land, appropriate infrastructure needs to be in place from the start.

Policy implications

- Infrastructure requires funding; the Community Infrastructure Levy (CIL) will not be able to pay for everything and could make development less viable; as such new mechanisms like Tax Increment Financing (TIF) are welcome.
- Putting in place appropriate infrastructure will also require cross-authority co-operation and joint working.

- Policy changes envisaged in the Localism Bill such as the New Homes Bonus and the community's right to initiate development will be important given that developers operate in very localised housing markets.

Policy lessons from the evidence base

- Previous top-down targets for housing have not worked to increase supply – although Regional Spatial Strategies helped to 'share out the pain' of new development and also helped build useful collaboration and knowledge.
- For affordable housing, the methods of assessing need often produced figures that exceeded an authority's entire housing target.
- Incentives to local authorities to make land available are only just being tried in the UK – although they have worked in countries such as Switzerland and Austria where municipalities are empowered to retain local taxes (see *Section 4 Planning* for further details).
- National commissions – e.g. in Australia these have looked at many of the same issues as the UK – types of building; the structure of the construction industry; financing development. All have found the problems intractable so far.
- Unbalancing the economy towards construction, as in Spain and Ireland, has on the other hand led to massive economic problems – as well as a construction overhang.
- In some countries, and in the UK in the past, public sector purchase of agricultural and brownfield land in and around towns and cities and the provision of infrastructure, has helped to ensure a steady supply of new housing and dampen the boom/bust cycle in the housing market. New towns are one example but this has also been important in the Netherlands and Austria.
- There is a case for greater use of publicly owned land – but it must be a sustainable site, in the right location.

Policy implications

- Targets may still be needed but the whole planning and development process needs addressing.
- In addition to CIL and the New Homes Bonus, local tax incentives such as TIF will be required to deliver more homes.
- New ways of providing cheaper land such as land pooling and Community Land Trusts could be promoted, perhaps coupled with self-build and equity sharing.

Supporting the construction industry

- There have been ongoing concerns about the structure of the construction industry which have worsened with the financial crisis. The main reason why developers do not simply build out huge sites (i.e. build to the site's capacity) , benefitting from economies of scale, is the risk that they cannot sell them.
- One solution might be to offer some sort of risk-sharing or risk guarantee. This would involve the public sector risking losses, but also sharing in gains. Over time the gains might match or exceed the losses.
- Builders complain that higher standards such as the Code for Sustainable Homes pushes up build costs that cannot be recouped in higher prices because people are not prepared to pay for them.

Policy implications

- Risk-sharing options for new housing and conversions may be required.
- Standards should not be reduced despite developer pressure.
- Support will be needed for disadvantaged communities which the localism agenda leaves behind.

Converting empty residential or commercial units

- Developers do take up opportunities to convert property into homes but more could be done to encourage empty buildings to be brought into use.
- There is an issue over VAT – new homes pay zero VAT but conversions pay full rate. However, EU rules mean that once this changes, instead of exempting conversions, new homes may have to pay.
- Where are the empty homes? One estimate suggests only about 5,600 are in the most pressured housing markets which is a concern (Wilcox, 2010).

Policy implications

- Planners could be more receptive to adaptations such as adding an extra storey to existing dwellings.
- Extending upwards in a sensitive way in terms of design could help make commercial units viable, creating community facilities.
- Self-build, while only a small element, could be encouraged further as enabling lower income households to access their own home.

This can be for owner-occupation or shared ownership or shared equity.

Introduction

Problems with housing supply are not confined to the UK; many OECD countries are also experiencing difficulties (Andrews, *et al.*, 2011) although many also appear to do better than we do (Evans and Hartwich, 2005).

In this section we review the available evidence which ends with the start of the Coalition Government. While the findings are clearly relevant, the context has changed radically, both in terms of the economic situation and the new policy agenda. This includes the Localism Bill, the New Homes Bonus and the National Planning Policy Framework now out for consultation. We have tried to draw out from the evidence the implications for the changing policy context.

What are the causes of undersupply in the housing market and why have levels of house building fallen to such low levels?

Planning Policy Statement 3 *Housing* (PPS3) (DCLG, 2011) sets out the requirement for local planning authorities (LPAs) to 'identify broad locations and specific sites that will enable continuous delivery of housing for at least 15 years from the date of adoption' [of the Local Development Document (LDD)] (DCLG, 2011, paragraph 53). It goes on to say that, drawing on information from a Strategic Housing Land Availability Assessment (SHLAA) and or other relevant evidence, LPAs should identify sufficient specific **deliverable** sites to deliver housing in the first five years. To be considered deliverable sites should be available now, be suitable in terms of location and contributing to the creation of sustainable, mixed communities, and be achievable in that there is a reasonable prospect that housing will be delivered on the site within five years.

On the basis of this, LPAs should have identified sufficient land for the housing that is planned (or was planned under the previous Regional Spatial Strategies) and, given sufficient demand, developers should come forward with proposals for housing schemes on those identified sites. PPS3 explicitly rules out the inclusion of 'windfall' sites in the first ten years unless there is robust evidence of genuine local circumstances that prevent specific sites being identified. The question then arises: why has land allocated for housing not been developed?

The reasons for this fall under the main headings below (see also *Section 4 Planning*). The evidence is drawn largely from Monk, *et al.* (2008) which explicitly addressed this topic. Issues include:

- time taken to get multiple landowners together and work out a deal
- infrastructure requirements
- land allocated in the wrong place
- landowner expectations
- local market situation
- standards
- viability
- general uncertainty/politics
- the credit crunch
- availability of finance.

Time taken to get multiple landowners together and work out a deal

Respondents to a survey of housebuilders, developing housing associations and land agents undertaken in 2008 (Monk, *et al.*, 2008) felt that planners – and government generally – do not make sufficient allowance for the time that this takes. Provided that a deal can be negotiated, development is likely to take place, but not as quickly as the planners would like. In some cases the timescale is years rather than weeks or months (Adams and Leishman, 2008).

Infrastructure requirements

Land may be allocated for housing, and even given outline planning permission, but unless the necessary infrastructure is in place the development cannot go ahead. Depending on the location, what is necessary can range from road access to the site, sewerage, water and other utilities, through to basic facilities such as primary school provision (although the latter might not prevent development from commencing, it might well slow it down if sales rates are affected).

Several respondents expressed frustration with English Partnerships. They said that they had ‘walked away’ from EP sites in the last twelve months because of the infrastructure issue. One said that they ‘won’t touch them even at any price, because of the infrastructure issue so they are not sure that it will stack up.’ ‘Interference’ by EP was considered unhelpful because it has different agenda and design issues which just confused the situation.

Land allocated in the wrong place

This implies that ‘planners have not done their homework properly so the land is not actually capable of development’. One example cited by

respondents was 'the floodplain that is within the Thames Gateway'. In some parts of the Gateway area, some respondents were very sceptical as to whether development will ever happen. One said 'whatever happened to seaside and country homes? In the past policies to develop social housing in places such as Clacton-on-Sea and Great Yarmouth made many families very happy while releasing family homes in London so they could start re-letting again'. Instead it is all going into the Thames Gateway, and this respondent certainly would not want to build in such a flood risk area or vulnerable coastline.

An example from previous research is the Dearne Valley near Barnsley in South Yorkshire. The planners had allocated housing land in this ex-coalmining area but developers perceived all the local demand to be elsewhere. Since they held options on this preferred land, they continued to lobby to get it allocated, and meanwhile did not take up land in the Dearne Valley because they did not see this as a viable option.

Sometimes the decision not to develop despite getting consent relates to the location of the proposal. Thus for example a new village development on a disused air base was given the green light but was never built because the site was considered to be too windswept. Another scheme with planning permission was halted because it was too close to an existing village and it would not have a distinctive character.

Developers tend to stick to their key products(Ball, *et al.*, 2000), and the site may be in the wrong location to suit a particular developer's key product. Some areas are too expensive for starter homes for example, so even though the land may be available there is not enough profit in it for the developer's specific product.

There is also a perception that where the government wants to locate housing is not necessarily where anyone in the industry thinks it should be located. For example, there was considered to be no reason why the Midlands should be shouldering so much of the development responsibility.

Landowner expectations

Some respondents thought that landowner expectations were too high and schemes simply did not stack up at the asking prices for land. However landowners were in no hurry to sell. They also said that if the planning permission goes to the owner who is not a developer, 'you may get a silly agreement that won't stack up'. The landowner agrees the

planning obligations with the local authority in order to get planning consent, but without consulting either a developer or housing association (HA) about their viability. HAs in particular often had difficulty in making schemes work for them.

Local market situation

One example given in this context is the peninsular site in London near to the Millennium Dome (O₂ arena). This site had outline planning permission in 2004 yet by late 2009 there was very little going on there. The site was owned by Quintain and Landlease in a consortium called Meridian Developments. The outline planning consent was for more than 10,000 units with more than 3,800 affordable. Today Crest and Bellway both have phases on it. Why did it take so long? Was it just too large? Another major housebuilder looked at the site earlier and said 'too much, too soon' in the local market context. At the end of 2010, Bellway held a topping-out ceremony to mark the near completion of its first scheme of 229 homes – a flatted development of one- and two-bed units. At that date – 8 October 2010 – approximately 85 per cent of the units had been sold 'off plan'.

In an untested local market, most developers will prefer to be building houses to flats because you can build just five units and 'test' the market but you have to build the whole block of flats. This applies even more in a period of more general housing market uncertainty.

Standards

Several respondents mentioned standards such as the new eco-homes codes whereby they either don't yet know the full cost implications, or believe that the additional costs will make a scheme unviable. Zero carbon is one example. Where the site is too small to ensure self-contained energy generation and conservation, developers will have to provide 'offsetting' tree planting on other sites. It was alleged that this could involve purchasing portions of rainforest in other countries. Whether or not this will actually happen, the key point here is the uncertainty of the cost implications and, where costs are known, the likelihood that they will make the scheme unviable. Indeed, given that most land options contain a mechanism for calculating the land value payable to the developer, the additional costs imposed by these standards may mean that the option to purchase is not in the end taken up.

A study conducted for JRF on its own exemplar low carbon scheme, Elm Tree Mews, found that although the scheme had sought to meet the

Code for Sustainable Homes level 4, the homes did not achieve these high standards in practice (Bell, *et al.*, 2010). Performance measures showed that dwelling heat loss was 54 per cent higher than designed, solar systems provided hot water but with numerous operational problems, and the heat pump system performed well below the designed levels. The net effect was of carbon emissions only marginally ahead of current regulations. However, the feedback provided by this study of Elm Tree Mews enabled a further scheme to achieve a vast improvement in the measured performance of the new technologies.

Viability

Many of the reasons listed above boil down to viability. However the market is also changing – not so much the housing market, but the agricultural market. ‘It used to be that the landowner gets £30,000 an acre which is ten times the agricultural value. But now the farmer gets his EU subsidies, wheat prices are soaring, so this gives an extra £5,000 a year. So the farmer thinks – in five years’ time it will be £50,000 an acre, so why are you offering me £30,000?’ Some farmers are also thinking of the petro-chemicals industry – when oil runs out they want to be in vegetable oil production rather than housing.

Related to this is the viability of brownfield sites and the role of regeneration in increasing housing supply. The ‘best’ brownfield sites have already been used, and what remains may not be viable even in a better economic climate (e.g. remote airfields in rural Lincolnshire).

General uncertainty/politics

One example mentioned in this context was a change in overall control of the local council. This can mean that planners go for a different site. Local politics can also be against development, or at least against meeting the government’s fundamentally ‘top-down’ targets.

Another example given by respondents was the Community Infrastructure Levy (CIL). Uncertainty adds to risk which is expensive. The Olympics were also cited as a source of uncertainty. They have pushed up infrastructure and construction costs for everyone. One respondent said ‘What a disaster for housebuilding!’

Sometimes the decision is made not to take development forward after planning consent has been granted. This can be due to ‘client fatigue’ – i.e. fighting the planners had been too much.

The credit crunch

The credit crunch had an immediate impact on the rate of new housebuilding as developers and housing associations alike found their credit lines under threat. Without credit neither can build, whether for the market or affordable housing. The then government put together a rescue package and brought forward its planned spending on affordable homes with the result that more affordable homes were delivered in 2008 and 2009 than planned. However those funds have now gone, and would have gone even without a change in government.

Availability of finance

New homes require finance and land. If the government cannot provide them and the banks will not lend, then homes will not be built. The Homes and Communities Agency has just announced the release of sufficient publicly owned land to build 100,000 affordable homes by 2015. The New Homes Bonus is intended to help to pay for them, but it remains to be seen whether these homes will be delivered to time.

New homes also require appropriate infrastructure which in turn requires finance. The Community Infrastructure Levy (CIL) will not be sufficient in the current economic climate, particularly where it makes developments unviable. It also requires better co-operation and joint working between local authorities – or larger authorities. To supplement infrastructure funding the Coalition Government plans to introduce Tax Increment Financing (TIF) which allows local authorities to borrow in order to forward-fund infrastructure, which has been successful in many American cities. Once the infrastructure is in place, sites are developed by the private and public sectors, but the tax revenue from the new developments is ringfenced to repay the original debt plus interest.

Developer funding and risk?

As reported by the Callcutt Review (Callcutt, 2007), land for housing development falls into two main categories: strategic land, and land ripe for development ('oven ready'). Land ripe for development may simply be land allocated in a local plan, land with outline planning permission, or land that has full planning permission. However the latter rarely changes hands unless the developer is facing difficulties or if the site is very large. Most land deals between developers will have outline permission only. Very large sites are different because they take such a long time to build out and the initial developer may prefer to sub-divide and sell to other developers both to increase build-out rates and to improve cash flow. Strategic land is land that has not been allocated for housing, and may never be – so it is high risk but because of that it is

relatively cheap. It is usually held on option, which is a contract between a developer and a landowner under which the developer has to use all best endeavours to pursue a strategy that will take that site through the planning system (Monk, *et al.*, 2008).

Developers hold land banks which normally comprise both of these categories. Strategic land may be cheaper than allocated land, but it represents capital tie-up as well as a revenue flow in trying to get the land accepted by the planning system. 'Oven ready' land is more expensive the closer it is to planning permission being granted, apart from land with a full permission because anyone purchasing land for development would always prefer to do their own negotiating with planners to get a scheme for the site that they know they can deliver and has a high chance of being profitable.

Some developers do not hold strategic land, but focus only on purchasing land ready to develop. In the past Barratts typically only held land for about three years, as the key to their profitability was turnover and they needed a large 'oven ready' land bank to maintain this (Smyth, 1982). Wimpey and Laing in contrast placed greater emphasis on managing the land element, some of which had been held for decades, with a substantial proportion of 'white' farm land.

Policy implications

It is important to remember that this is an international problem and not restricted to the UK. Many of the problems noted above relate to the planning system and developer behaviour, but there are also demand side issues, particularly in the current economic climate. Lack of mortgage credit and the need for large deposits make housing unaffordable for first time buyers and this makes viability of new development an issue. Regeneration and the use of brownfield land has helped increase supply in the past, although the government targets were met by a reduction in greenfield development rather than an increase in brownfield (Wong and Schulze Baing, 2010). However the 'best' sites have gone and what remains may not be viable in the short- to medium-term.

Whether brownfield or greenfield development, the relevant infrastructure needs to be in place first, otherwise it is not viable for developers to deliver new homes and those that are built will quickly become unsustainable (if they are without facilities or good transport connections).

Given that developers are building homes to sell in a very localised market, the changes envisaged in the Localism Bill will be important, particularly giving the community rights to put forward development and to veto developer proposals. However planning policy has undergone many changes over the past decade, and each change takes time to become embedded (Burgess, *et al.*, 2010).

What lessons can we learn from our approach in government and from what worked in the past or overseas?

The current coalition government has focused on the failure of top-down targets to deliver additional housing. While the abolition of the regional tier may be regretted because it played an important role in 'sharing out the pain' of new development (as the South East might say) as well as aiding knowledge and joint working between local authorities, the stark lesson is that the targets were not met. Indeed, for affordable housing, the approved methods of assessing need frequently produced figures that exceeded the entire target for a district. Given that much of the affordable housing had to be delivered through the planning system, this was clearly impossible as some market housing has to be built to deliver the planning gain. No wonder planners held up their hands and ignored the targets.

Yet targets can work, notably the national targets for the re-use of previously developed (brownfield) land (Wong and Schultz Baing, 2010). However, the targets were met as a result of a decline in the use of greenfield land, not because more brownfield land was actually developed (Wong and Schultz Baing, 2010). As noted above, the planning and housebuilding processes, rather than targets as such, may have been the problem. Many local authorities are still using their old Regional Spatial Strategy targets and even the Coalition Government may well find it helpful to reintroduce targets.

Incentives to local authorities to make land available, such as the New Homes Bonus, are only just being tried in the UK. However they have worked in countries such as Switzerland and Austria where local authorities retain much of the planning gain from new homes and future local tax revenues from new enterprises. These resources are used to benefit the local community and go a long way towards combating anti-development views. It remains to be seen whether the New Homes Bonus will be sufficiently large to make a difference.

However it is unlikely that the Coalition Government will in turn succeed in enabling enough additional homes to be built under their current

policies (although we have not yet seen the 'real' National Planning Policy Framework which is due in late summer 2011). While more homes were built annually during the 1960s (over 200,000 by the private sector and almost 200,000 by local authorities and housing associations), so much else has changed since then that we can hardly go back to that policy context. The use of options on land has introduced the landowner to a share of the profits, and publicly quoted housebuilders have to make returns for their shareholders, not just profits that a private company would be happy with.

Some countries (Sweden, the Netherlands) have addressed this problem by public purchase of farming and brownfield land. This land is then sold with planning permission at a more reasonable price. In the past this approach was used by the new towns and also by some authorities such as Bedford where it ensured a steady supply of new housing during recessions and appeared to dampen house price inflation during booms. Whether this could be replicated in today's economic environment is debateable. Ways that have been considered include land pooling and Community Land Trusts (Barlow, *et al.*, 2002). These might fit well with the Coalition Government's localism agenda.

An effective property tax system might help reduce housing market volatility and hence result in increased housing supply over the longer term (Stephens, 2011; Kelly, 2011). Property taxes have been identified by the OECD as an area of taxation reform that would be least harmful to economic growth. In addition, housing taxation reform designed with housing supply incentives in mind might also act to stabilise the housing market and improve distributional outcomes (Oxley and Haffner, 2010). In addition to the efficiency and equity principles of the wider tax system, the following objectives are crucial elements of an effective property tax system (Oxley and Haffner, 2010; Hall and Gibb, 2010):

- less volatile housing markets;
- a neutral or complementary impact on local housing systems, other tenures and private developers
- less distortion of people's choices between owning and renting
- able to work with private funding efficiently
- consistent with society's ideas of delivering affordable rents and prices and supporting low -income households
- going with the grain of other related social policies relating to, for example, labour incentives, worklessness and mixed communities
- good value for money for the public purse.

Policy implications

- Although national housing targets do not seem to have worked, other targets have worked, but not always in the expected ways. It may be the process rather than the targets *per se* that did not work.
- Incentives are only just being tried yet have worked in other countries, but the incentives need to be large enough to make a real difference.
- Public purchase of land has been shown to be effective but in the current climate new ways of doing this may be required, such as land pooling and Community Land Trusts.

How do we support the construction industry to build more homes, and in an environmentally sustainable way?

In the context of the credit crunch, the previous government's rescue scheme was widely considered to have been a success and certainly saved some developments that were able to be completed rather than remaining half built for years.

Housebuilders are risk takers even though they try to minimise that risk at all times (Leishman, *et al.*, 2000) This is why they 'test the water' when building out a large site even though there might be economies of scale by building it all at once. Flats are risky because the whole block must go on the market at once, which is why selling 'off plan' is so important. The risk aversion of housebuilders shows all too clearly in the recovery from a recession – they are quick to stop building when the downturn arrives but very slow to rebuild as the economy recovers. All this increases the volatility of output over time.

Therefore, one potential way to support them might be to offer some kind of guarantee or share in the risk. This could come with conditions including monitoring the efficiency of construction process etc. While it would mean government bearing some risk, this is not that different from shared equity loans for first-time buyers, and if the project is sound the state might recover its investment and more. The Enterprise Boards that were set up during the 1980s were an example of this kind of approach, although in the end the main part of their investment in local companies took the form of loans rather than equity shares. Their hands-on approach to small businesses paid off and all the loans were repaid so the money was then available to support another company. Something along these lines might be worth exploring for the construction industry. It would mean that the public sector risks making losses but also shares in gains, and over time the gains might exceed the losses.

In terms of the sustainability of new development, building in the flood plain is one issue, but equally risky is building in vulnerable coastal areas. The five main vulnerable coastal areas currently are south Wales, north west Scotland, Yorkshire and Lincolnshire, East Anglia and the Thames estuary (Zsamboky, *et al.*, 2011). However, while these areas are already vulnerable, the whole of the UK coast will be affected by climate and coastal change in the future. The study by Zsamboky *et al.* looked at case studies of disadvantaged areas within the most vulnerable and found that people were more concerned about unemployment and income than climate change, except where they had already experienced severe storms or flooding. The new localism agenda places the onus on the local community to take the lead in tackling issues such as this, but the study found that disadvantaged communities are ill-equipped to do so without considerable support and funding from central government.

Policy implications

Given the riskiness of housebuilding and the volatility of the housing market that exacerbates that risk, government guarantees or public sector risk sharing might be appropriate. This has been tried in other contexts, with some success (low cost home-ownership, Enterprise Boards). While there is a risk of losses, the gains might offset these over the longer term.

The new localism agenda is unlikely to benefit deprived communities for example in terms of building in flood plains or coastal erosion. Support will be needed to help such areas combat the real challenges of climate change.

What role can converting empty residential or commercial units play in creating more homes and how can we increase supply amongst existing housing stock?

Conversions usually mean dividing up a large house into smaller flats and only a part of the existing stock is suitable. Under the brownfield agenda developers have not been slow to take advantage of conversions e.g. of hospital or barracks sites where the old buildings are converted and the green space used for new homes. The point is these will only work if they are in the right locations i.e. where people want to live, otherwise they will not sell.

Developers are also quick to develop infill sites which, being small, are less risky (although more expensive it is claimed) than large schemes. However more could be done to encourage bringing empty homes back

into use including flats above shops. Some local authorities have recently introduced new schemes which they hope will achieve this. Many, however, are in high-pressured areas where it is possible that pockets of low demand are encouraging developers to wait until they can buy out whole areas at knockdown prices. Rather, self-build could be encouraged so that lower income households have a chance to gain a home.

For example, Bradford has appointed a team of surveyors formerly working in the council tax office to identify empty buildings, seek out the owner and address the constraint. They anticipate that this will bring many more dwellings into use. Tools include advice to absentee landlords, grants and loans to renovate property, and a private sector development officer whereby in return for a loan or grant the landlord renovates the property and then accepts tenants allocated by the local authority.

Planners could be more receptive to adaptations such as adding an extra storey to an existing dwelling or building to provide more homes. There needs to be more emphasis on good design and architecture rather than sticking rigidly to conservation areas etc. If the area can be extended upwards in a sensitive way, it might create an even better place, for example by expanding the demand base for certain local services such as shops and cafes.

Homes in Multiple Occupation (HMOs) could be better regulated to ensure standards are met or increased. However, if the impact of stronger regulation was to reduce the number of HMOs available, this would not exactly increase housing supply – although it might increase the supply of single household homes/flats as opposed to rooms with shared facilities.

Policy implications

- Conversions of empty residential and commercial property should be encouraged provided it is in the right location.
- Empty homes policies in high-pressured areas should include encouraging self-build.
- Planners could be more receptive to enlargement provided the design is sensitive.

Conclusions

- The causes of undersupply in the housing market are the lack of profitability in the private sector and reduced subsidies to affordable housing. This is a problem across OECD countries, not just the UK.
- There are problems with the planning system and developer behaviour but there are also demand-side problems related to borrowing constraints. These affect the viability of development for both housebuilders and housing associations.
- The largest programmes have always come from greenfield and easy brownfield sites which are no longer readily available.
- Infrastructure needs to be in place before development, so new mechanisms to fund infrastructure such as TIF are welcome.
- New ways of providing cheaper land such as land pooling and land trusts should be promoted, alongside encouraging self-build and equity sharing.
- To support the construction industry, risk-sharing options may be required.
- Standards should not be reduced especially in the context of climate change.
- Targets may be useful but how they might work needs further investigation.
- The localism agenda is important and ways should be found to mobilise people locally to help ensure the best outcomes for all. Some disadvantaged communities may be unable to participate and will need support.
- Planners could be more receptive to innovative adaptations to create more homes.

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Section 4 Planning

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How housing land supply could be increased

- Planning is only one element in increasing land supply – even when allocated for housing, land may not be released by the landowner, whether they are private or public sector.
- The amount of land allocated for housing could be improved by ensuring that local authorities are planning enough housing to meet overall requirements. This requires co-operation across broader housing markets and a continuing role for government in agreeing local plans.
- Contributions to infrastructure and affordable housing should be simplified, but include a narrowly defined S106.
- Local housing trusts, community land trusts, self-build and other local initiatives should be encouraged, as they could make small but significant contributions.

How to make better use of previously used land and buildings

- The present government has already announced proposals to change the Use Classes Order to make it easier to convert vacant commercial premises to housing.
- Large public sector sites might be broken up into smaller parcels for separate disposal as this will underpin faster build-out by creating opportunities for more sales outlets, and enable smaller housebuilders to compete.
- Other types of brownfield land and empty buildings often have ownership problems. There is a need to consider how to identify such sites and how to take them into public ownership and future beneficial use.

How to overcome local opposition to new housing developments

- The planning system provides few direct incentives for local authorities or local people to accept new development. This is one reasons why there is a lack of local buy-in to the need for additional housing, particularly affordable housing.
- The Coalition Government is introducing incentives as part of its localism agenda. These include the neighbourhood aspects of the Community Infrastructure Levy, the New Homes Bonus and Tax Increment Financing.

- Local incentives must be large enough to offset the negative impact of development on local communities.
- There needs to be greater buy-in by local communities and the right of neighbourhoods to put forward their own plans for development might go some way towards this.

How to include those outside the local housing market in planning decisions

- We need to find new ways of engaging future households in the decision making process.
- One way may be to embrace the new technology such as Twitter, Facebook or mobile phones and use them to encourage 'voting' on particular issues. However, this requires a mechanism to ensure those with legitimate reasons for wanting new homes are able to 'vote' and not those who are anti-development.
- It is equally important to ensure that disadvantaged households have a voice, as they may be most in need of new homes.

How do we increase land supply for housing?

The planning system and the allocation of land for housing is only one element in increasing the land supply for housing. Landowners, both private and public sector, play a part and may not want to release land allocated for development.

What we know

The inadequacy and inflexibility of housing supply has been a problem in the UK for some time (Barker, 2004). Since around 1980 the UK has adopted a neo-liberal policy approach which emphasises privatisation and deregulation of markets, however land-use planning remains one of the most significant and powerful regulatory restrictions on private market activity (Bramley, 2010).

Planning vs. developers

There has been considerable public debate about the supply of land. The development industry and its advocates complain that the planning system releases too little land and that its release is slow and unpredictable (Callcutt, 2007). The industry's critics assert that developers do not take full advantage of the available land, preferring to profit from land value inflation with the minimum of effort given to actually building houses (Callcutt, 2007).

Planning constraints

Problems with the planning system have been identified as causing inflexibility and housing undersupply, i.e. the unresponsiveness of the planning regime to market signals (Cheshire and Sheppard, 2005), the inefficiencies of the planning process (DTLR, 2001) and the top-down characteristics of the system (Morphet, 2004).

According to the market view the planning system constrains what would otherwise be a reasonably responsive supply of land, both directly by allocating insufficient land to meet demand and indirectly by providing a framework in which oligopolistic landowners can reorganise development to increase their incomes from land from monopoly rent (Evans, 1987).

Residential developers have argued that the planning system imposes too great a constraint on the residential land supply, restricting development locations and the phasing of development and hence profit generation. Some researchers claim that a restricted supply of land inflates land and house prices and that more flexible land release policies would substantially reduce the costs of new residential development (Evans, 1983).

Further criticism of the planning system includes that regional planning was 'insufficiently strategic' and was 'avoiding difficult decisions', the local plan system was slow, cumbersome and out of date and there were long delays in responding to planning applications. In addition there were separate processes in England and Scotland (Bramley, 1998).

Housebuilders believe that housing supply is hindered by a lack of viable sites; by a high and growing regulatory burden related to land-use planning and to building and other regulations, including zero carbon homes; by finance problems, partly for house-buyers with regard to mortgages but also with respect to development finance and by a loss of capacity in the industry associated with skills.

Developer constraints

It is also argued that the release of land through the planning system cannot be transmitted into the corresponding housing supply due to the strategic land-banking activities of real estate developers for speculative reasons (MacDonald and Kliman, 2007). The perception that land for housing development is in short supply is a key element in the housebuilders' business model (Callcutt, 2007).

The withholding of allocated development land by landowners and residential development companies reduces supply and increases prices, making for a thinner market and greater potential for volatility (Gillen and Fisher, 2002). If there is an expectation of house price increases relative to construction costs, there are benefits (in the form of development profits) to withholding land for immediate development (Gillen and Fisher, 2002).

Why allocated land does not come forward

However, there are more complex factors shaping how and why allocated land comes forward for development. The main reasons why land that has been allocated for housing is not being developed fall under the following headings:

- time taken to get multiple landowners together and work out a deal
- infrastructure requirements
- land allocated in the wrong place
- landowner expectations
- local market situation
- standards
- viability
- general uncertainty/politics (Monk and Whitehead, 2008)

More detail is provided on these issues in *Section 3 Housing Supply*.

Planning is still a small element of a broader process and one conclusion is that government needs to make greater allowances for the time taken for land to move from unallocated strategic land to a completed housing development (Monk and Whitehead, 2008).

A framework

Problems of insufficient land supply have been increasing over time and across countries such as those within the OECD (Andrews, *et al.*, 2011). Differences in available land supply reflect structural conditions such as the degree of urbanism and physical limitations on land for development, but also policies such as land use and building regulation have a bearing on housing supply (Andrews, *et al.*, 2011, pp. 29).

In the Netherlands a recent analysis of the responsiveness of housing quality as well as the volume of housing investment and new housing construction in units showed that all of these elements were completely unresponsive to changes in house prices in the short and medium term (Vermeulen and Rouwendal, 2007). Conventional models of competitive land and housing markets could not account for these findings.

However, government policies, especially the regulation of land use, have contributed significantly to the lack of housing supply and consequently high house prices (Vermeulen and Rouwendal, 2007).

However the 'planning versus developers' debate, which has also been around for a long time (Grigson, 1986; Evans, 1987), requires a deeper understanding of what are complex constraints and interactions. Thus Hilber and Vermeulen (2010) focus primarily on identifying the causal impact of spatial variation in regulatory (planning) restrictiveness on housing costs, affordability and house price dynamics. In order to do this they carefully control for physical supply constraints and disentangle and identify the separate causal impacts of both planning and physical constraints. Their analysis provides unambiguous causal evidence demonstrating that planning constraints, and to a lesser extent physical constraints, have had a serious negative long-run impact on housing affordability. They have also increased house price volatility although macro economic factors have also played a role here (Hilber and Vermeulen 2010, pp. 4).

The UK has one of the most persistently volatile housing markets, with four boom and bust cycles since the 1970s. These cycles distort housing choices, drive up arrears and possession rates, heighten wealth inequalities, and importantly, inhibit housebuilding (Stephens, 2011). Builders are quick to stop work as soon as recession starts to bite, thus exacerbating its speed and depth, but slow to resume in the recovery. This is partly dependent on bank credit which dries up quickly in recession but is slow to be made available again once the slump is over. New housing supply is restricted during recovery by debts accumulated during the previous boom, while demand for new supply is restricted by the tightened mortgage market following the recession (Stephens, 2011).

As long ago as 2002 Barlow, *et al.*, (2002) looked at the supply of land for housing for the Joseph Rowntree Foundation and found that the then current political debate was too narrowly focused on brownfield rather than greenfield development, and on increasing densities in order to save land. Instead the authors argued that the housing system faced three key challenges for the twenty-first century:

- to redesign the planning system to meet additional housing requirements effectively when and where they arise
- to begin the process of reducing the average age of Britain's housing stock and raising overall housing quality by replacing

outdated and often low-density homes that are uneconomic to refurbish

- to provide affordable housing to those who are unable to secure homes in the open market or ineligible for social rented housing.

They recommended that:

- discussion about the supply of land for new housing must move away from the debate about greenfield and focus instead on the macro-economic needs of the UK as well as the sustainability of communities
- government must address the issue of housing stock replacement
- land pooling and community land trusts should be investigated as a way of providing cheaper land for affordable housing.

Burgess, *et al.*, (2010) in a paper for the Joseph Rowntree Foundation argued that:

- hostility to new development is often driven by fears that adequate roads, schools and other services will not be provided
- land supply is heavily constrained, especially in the south east, and available land is not always in the right place
- there is not enough funding for affordable housing, especially with the collapse of S106 contributions in the downturn
- regulation, including planning, is expensive, complicated and slow moving.

The potential impacts of the coalition policies such as the move away from regionalism to localism; asymmetric rights for neighbourhoods to suggest development and more general changes in local government finance are likely to produce massive changes in new housing supply, not all of which will be good news, especially for disadvantaged people who are less likely to have a voice in the localism agenda.

Other suggestions for increasing supply include:

- releasing more land
- speeding up the planning system
- simplifying regulations and restricting any growth in them
- improving access to development finance
- boosting land assembly processes
- increasing utilities and infrastructure provision
- enhancing innovation and associated supply chains
- raising resource bases in skills, management and research.

The government needs to ramp up financial incentives to local authorities for land release and to improve the tax regime for professional investors in the residential rental market. Contributions to infrastructure and affordable housing should be simplified, but should include a narrowly defined Section 106. Tax increment funding for infrastructure should also be explored (Burgess, et al., 2010). The Coalition Government is attempting to put many of these policy suggestions into place.

Switzerland has managed to build more, and larger, homes than the UK while keeping house prices more stable (Evans and Hartwich, 2005, pp. 28). A system of decentralised planning, local and regional cost-benefit analyses of proposed developments, competition between political units and a more formalised planning system appear together to be creating legal certainty and are able to provide the housing that people want (Evans and Hartwich, 2005, pp. 42). Again, the Coalition Government appears to be moving towards a more decentralised approach. However, Evans and Hartwich (2007) have also argued that local governments simply implement the policies their existing voters want which would imply that a decentralised approach would simply perpetuate NIMBYism.

How do we make better use of previously developed land and buildings?

The Coalition Government has announced proposals to change the Use Classes Order to make it easier to convert vacant commercial premises to housing. It has also revoked the brownfield target that 60 per cent of new homes should be built on previously developed land.

Many of the largest sites are brownfield land formerly owned by government departments and other public agencies, or are sites which have been assembled (and in some cases decontaminated) by English Partnerships (Callcutt, 2007). The Callcutt Review recommended that in disposing of large sites for housing development, the government and its agencies should wherever possible either break up a proportion of each site into smaller parcels for separate disposal or stipulate as a condition of sale that the primary purchaser should do so. This should both underpin faster build-out by creating opportunities for more sales outlets, and enable smaller housebuilders to compete for their share of supply (Callcutt, 2007).

For other types of brownfield land and empty buildings the position is more complex. There are often ownership problems, in that the original

owners may no longer exist as legal entities or may be impossible to trace. If a company has gone into receivership and all its assets with a positive value have been distributed, what remains may have no current value. The government needs to consider how to identify such sites and how to take them into public ownership and hence future beneficial use.

How do we overcome local opposition to proposed developments and get communities to champion new homes?

(See also *Section 2 Places where people want to live*)

One reason for local opposition to proposed developments is a lack of infrastructure, from roads and crossings to schools and shops to doctors and dentists. Another is that in economically buoyant areas, local authorities lack any real incentives to be 'pro-development' although areas with high unemployment often welcome development because of the jobs it brings (Evans and Hartwich, 2007). Incentives are being introduced by the Coalition Government including the New Homes Bonus, the neighbourhood aspects of CIL, and Tax Increment Financing (TIF). These are aimed at funding local infrastructure as well as encouraging more homes (Evans and Hartwich, 2005). In New York large amounts of infrastructure have been funded through TIF (NYC, 2004).

Bramley (2010) has argued that infrastructure issues including the availability, provision and cost of infrastructure, are *indirectly* partly responsible for supply-restricting approaches. The legacy of the 1970s' public spending cuts had been an overall national problem of inadequate infrastructure (especially transport). Local residents/voters/councillors perceive that new development will further overload congested infrastructure and they rationalise their NIMBYism this way. Local authorities do not get sufficient or apparent extra resources from taxes on new development to match the perceived costs of servicing it. There is also a theory that brownfield sites already have infrastructure. 'Sustainability' may require additional types of infrastructure (sustainable drainage systems, public transport, cycleways). Infrastructure limits (on, for example, roads, sewage treatment) may embargo developments. Delays to planning approval may be related to negotiations over infrastructure. However, these may simply be excuses for underlying NIMBYism.

The coalition paradigm is about 'localism' and 'incentives'. Could it work?

A favourable interpretation could go as follows: People are not against all development, just certain kinds of development, e.g. garden grabbing, too-dense flats, large soulless estates. When people engage in a local dialogue they weigh up benefits and costs to their community (including broader economic development). Incentive payments (plus S106) will enable valued local infrastructure and amenity improvements. The ability to gain affordable housing for locals via S106 is valued.

A more sceptical/cynical interpretation would be:

In the prosperous areas of the south people are determinedly NIMBY and will resist most new housing, especially large scale. Incentives will not be enough to sway these communities (infrastructure congestion is too chronic; primary care and education cuts need offsetting). Such communities tend to resist affordable housing too. The communities that are more supportive of development are in the economically weak north or less prosperous rural areas.

What is sufficient incentive?

Evidence on the costs of a reasonable infrastructure package to support substantial growth, based on tariffs developed in growth areas is provided by the Milton Keynes example. They set a tariff of £18,500 per dwelling for community infrastructure, *plus* significant affordable housing contribution, *plus* around 40 per cent of land gifted for green space and public space (with an overall notional value of £40,000 –50,000). This is several times the proposed Council Tax ‘incentive’ (£8,400). And even this does not cover the full costs of growth.

A smarter incentive

Arguably the incentive should be larger but targeted (to produce the same overall cost). It should only apply for development over a minimum threshold rate. It should only go to areas with a significant housing shortage based on affordability and demographic analysis conducted for the appropriate sub-regional area. There could be bonuses for areas with high economic/job growth (could be via a local non-domestic rate enhancement). This incentive would be reinforced by general support for a tariff type use of S106 underpinned by local prudential borrowing.

Burgess, *et al.*, (2010) found that the planning system provides few direct incentives for local authorities or local people to accept new development. There is often a lack of local buy-in to the need for additional housing, particularly affordable housing, which tends to have a stigma attached at the local and neighbourhood levels.

Local incentives must be large enough to offset the negative impact of development on local communities. This will have to include both 'carrots' and 'sticks' and a monitoring and accountability system to ensure local authorities actually deliver.

In principle, the most obvious way would be to introduce incentives within a root and branch restructuring of local government finance to support the localisation agenda. This is almost certainly politically unacceptable in the short to medium term. A better approach is therefore a system of direct incentives by payment per dwelling. At present only about 16 per cent of local government revenues are related to the new homes that are built, so that this together with a lack of infrastructure (including local services such as GPs and dentists) provides a disincentive to accept any new development at all.

How do we ensure that those outside the housing market aren't excluded from decisions about development?

We do not understand enough about why local communities are so resistant to new housing development. Why is it that the housing-wealthy and the well-housed have such a strong voice in responding to planned new housing developments? One reason is that already existing communities are coherent, but the community who would live in new housing does not yet exist, is disparate and cannot easily come together to have a voice. We need to find new ways of engaging people in the planning process so that those who cannot afford their first home, who are living in inadequate or overcrowded housing or languishing on housing waiting lists, have a voice in the granting of permission to new development.

One way might be to embrace new technology. People are actively using Facebook and Twitter. Perhaps the disenfranchised might be persuaded to 'vote' via one or other electronic facility, or online. We need to think of new ways to find and engage these people while still acknowledging that the very poorest and oldest may not have access to new technology or may be unable to use it (e.g. cannot get to the library where such technology is or could be made available with help in its use). We also need to explore how to regulate and implement an effective 'voting' system, so that the existing community can't simply sign up while potential new residents cannot. This may not be easy.

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Section 5 Home-ownership

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Why do people want to own?

- People want to own their own homes for a wide range of reasons to do with what is available in the housing and investment markets and what constraints they face in other sectors.
- Tax benefits have been an important element in affecting the return on investment in housing in periods of house price growth but equally control over one's housing environment and the lack of a landlord–tenant relationship is core to the decision to own.
- There are also costs to owning notably in terms of the costs of purchase, moving and maintaining the home which mean that it tends to be those who are expecting to settle for long periods who own. Evidence from countries such as Germany where renting dominates shows that this core group own as much as in other countries with higher ownership rates.
- In the UK younger households used to own in part because of the lack of an effective private rented sector – but this trend, following other countries such as Australia, was reversed in the 1990s.

Are there aspects of owner-occupation that can be replicated?

- The fundamental of being one's own landlord cannot be replicated; nor can the flexibility about expenditure over the household's lifetime.
- Other attributes can be replicated – but the fact that better-off stable households prefer owner-occupation across countries suggests that the fundamental benefits remain.
- Owner-occupation enables greater access to borrowing and to investment in an asset over which the individual has control – and these incentives have been heightened by tax benefits and excessive price rises as well as the lack of comparable investments for renters.
- Owner -occupation involves risks, especially for those on lower or volatile incomes or whose household circumstances change. But so does private renting in particular and increasingly social renting.
- Shared ownership, shared equity and other intermediate tenures can provide very similar attributes to ownership together with the possibility of full ownership if circumstances change.

- The objective should be to provide a tenure-neutral tax and regulatory environment in which people can make informed housing choices relating to their fundamental household circumstances.

What is preventing people buying?

- At the present time the most immediate issue is access to mortgage funding and particularly to a deposit. But just as important into the medium term are the greater risks and uncertainties about future income, employment and house prices, the shift in balance on tax benefits (owner-occupation rates are back to where they pertained when mortgage tax relief was removed), and the greater availability of mainstream private renting.
- There is evidence of rental chains – where everyone in the chain wishes to purchase but cannot sell their own property. Were expectations to change and the market to pick up there might be a rapid reversal in the fall in owner-occupation rates – but equally uncertainties may continue as may the shortage of funds.
- The most important concern is when house prices may stabilise – no-one wants to buy until this becomes clearer.

Making owner-occupation more accessible

- It is irresponsible to push people into owner-occupation unless their fundamental circumstances are appropriate. The objective should be to address market failures.
- Equally people should pay the full cost of their housing rather than benefit from special subsidies unless there is a particular issue of equity.
- The main issue at the present time is to help those who are excluded by funding shortages to fund a deposit – probably most effectively through equity sharing by developers, lenders and at the limit government.

Why do people want to own their own home?

Understanding housing markets should be based on a clearer understanding of why owner-occupation is the aspirational tenure for such a large proportion of households. The JRF report *Public Attitudes to Housing* provides a recent review of the evidence (Wallace, 2010). It demonstrates that attitudes do shift in the light of circumstances but that overall the preference to own remains strong. However drawing upon time series data by age group from the Council of Mortgage Lenders we can see that there has been a sharp decline in the preference for home-

ownership among under-25-year-olds through the 2000s and the recovery to 2007 was weak. Other more recent data suggest this has been sustained.

Sitting behind these data are embedded views about what different types of housing tenure offer households. A fundamental attribute of home-ownership is that 'you are your own landlord and, by the same token, your own tenant' (Whitehead and Yates, 2010, pp. 22). The integration of these two roles dispenses with the complexities of a contractual relationship because you know what you want as both landlord and tenant and can maximise the benefits and minimise the costs – both of which are aspects of the broader issue of the comparative efficiency of market versus administrative relationships (Coase, 1937; Williamson, 1975).

The key attributes of ownership are home-owners having control over the use of their dwelling, a sense of security and flexibility with respect to non-essential outgoings – which gives them a better match between expenditure and income. Home-owners are protected against increases in rents and benefit from lower recurrent costs. In addition, there are deep psychological benefits from home-ownership (Saunders, 1990; Hiscock, *et al.*, 2001). Unsurprisingly 96 per cent of home-owners are satisfied with their housing choice (Survey of English Housing/English Housing Survey, various years).

Housing is also an asset and the benefits of ownership include easier access to funds to buy the home as compared to other assets and to lower interest rates associated with the reduced risks because of the integration of landlord and tenant roles (Bridger and Alter, 2006). Owner-occupation provides households with a relatively safe form of debt-financed wealth accumulation. Housing equity also provides a buffer against changes in circumstances (Wood and Nygaard, 2010). Social tenants have property rights over the use of the asset, but no capacity to realise housing wealth. Private tenants may only gain from the benefits of house price increases through lower rents because of potential capital gains for the landlord. Full owner-occupiers have all the rights to wealth accumulation and to realise that wealth, although they also bear the risks associated with such a lumpy investment. Home-ownership thus provides a wider range of options than other tenures.

Choice is also important in understanding why people aspire to home-ownership (Whitehead, 1979). In theory, any set of housing attributes and location could be made available in any tenure. However,

constraints on access to social housing and differences in the costs of management of different types of dwelling – notably single family homes versus apartment blocks with communal areas – mean that tenure is strongly related to dwelling type and thus often to location.

As a result of these attributes, home-ownership is generally associated with control, security, freedom, independence, responsibility and involvement (Elsinga and Hoekstra, 2005). These are seen as the main reasons why owner-occupiers choose that tenure and appear to be more satisfied with their homes than tenants across a wide range of countries. Other outcomes, such as improved health, education and labour market, are also sometimes presumed to derive from the security and stability that stem from control and contribute to preferences for home-ownership (ODPM, 2005a, 2005b)

Not all attributes of home-ownership produce benefits (Whitehead and Yates, 2010). Costs include:

- higher transaction costs of buying and selling
- lower residential mobility as a result of transaction costs which restrict labour market mobility
- responsibilities of asset management
- risks associated with changing interest rates, income loss and house price falls
- stresses of meeting mortgage repayments, risk of possession, changes in asset values associated with neighbourhood change and more general concerns about the housing market
- constrained labour market mobility especially during home market downturns (Oswald, 1999).

These costs are likely to be higher for more marginal owners who are stretched when they buy and who face other uncertainties such as those related to job and family circumstances (Burrows and Wilcox, 2000). Many of the benefits are strongly related to income distribution and the stability of income or to the benefits of affordable, secure and adequate standard housing rather than to owner-occupation itself (Whitehead, 1998). These costs point to the factors that can make private rented housing more suitable for a range of households able to pay for their own housing, including ease of access, greater flexibility, lower financial commitment and fewer management responsibilities.

International evidence shows that the UK now has exactly the EU average owner-occupation rate – but the range is still very large, from a minority in Germany to well over 90 per cent in some Eastern European

countries (Dol and Haffner, 2011). Evidence looking more at typical households shows that across all types of country stable, more middle-aged households who do not expect to move are owner-occupiers and that owner-occupation is similarly prevalent across countries (Freeman, *et al.*, 1996; Scanlon and Whitehead, 2004).

Are there aspects of home-ownership that could be replicated in other types of tenure?

In principle, most if not all the attributes of home-ownership could be replicated in other tenures but the fact that they are not suggests market failures. The fundamental attribute of being your own landlord and tenant cannot be fully replicated, however, although long leaseholds come close.

While housing is an asset and in principle can be invested in by those who are not home-owners, the vehicles for doing so have been limited to date although Castle Trust has recently announced the creation of a Houssa (a housing linked ISA) and RBS is shortly to issue retail investment products linked to house prices. This is an area of active development but it is unlikely to be a mass market and although it addresses the investment question it does little else, though it may help build deposits/ease access.

Security of tenure may only be partially replicated through strong regulation on private renting which itself is a difficult area. Long leaseholds were mentioned earlier and this does give households strong control over the property. However there are few opportunities to acquire long leaseholds. In many respects and to date the strongest security of tenure offered outside of home-ownership is in the social housing rented sector and here the Coalition Government is proposing change.

Choice is more limited in rented housing simply because home-ownership is the majority tenure and rental markets in some areas can be very small indeed (although generally larger in cities, especially London). We would caution against overstating or over-generalising the benefits of home-ownership. Many marginal owner-occupiers would not recognise these benefits – particularly if they are struggling to cope with payments and living in poor-quality housing.

Intermediate tenures can replicate many of the attributes of home-ownership (Monk and Whitehead, 2010). Shared equity in particular 'feels' exactly like full home-ownership but with an extra mortgage provided by the sharing party – whether developer, housing association,

lender or government. It offers similar control, choice, and protection from rental risk, plus a fair degree of security/stability, wealth accumulation, financial flexibility, ease of access and exit and protection from house price risk. For some households, this is a very attractive combination, with an underlying assumption that they will eventually become full owners. Shared ownership also provides many of the attributes of full ownership but to a lesser degree because of the relationship with the landlord, rental risk as well as house price risk and less opportunity of wealth accumulation. Ease of access is also lower although that could be addressed were a second-hand market in shared ownership products to develop (there are signs that such a market is emerging in London and some other places). However, that shared ownership is perceived as providing many of the attributes of full ownership is evidenced by interviews with shared owners who report:

I know that it's part theirs, but that doesn't bother me. It still feels like ours.

We own 25 per cent of the property and we consider it ours – the fact that it is shared ownership doesn't affect how we use it.

(Clarke, 2010, pp. 193).

What is preventing people from buying their own home?

Some people do not want to buy. They may already have good rental accommodation; they may like that tenure because of its ease of access and exit, or they may not want the financial risk of falling house prices or the indebtedness where their income is not secure.

Clearly access to home-ownership has become steadily more difficult despite the sharp reduction in interest rates. Thus although mortgage cost to income ratios have improved, house prices remain high relative to incomes and mortgage availability and terms have tightened. The consequence of this is that the number and proportion of younger first time buyers (FTB) have been falling. The long-term average (since 1976) has been nearly 420,000 FTB per year. Currently the number is around 200,000 (Whitehead, 2010). Within the FTB population we have 'returning FTBs', flowing from divorce and relationship breakdown (estimated by the Council of Mortgage Lenders [CML] to be about 20 per cent of FTB numbers in recent years) and we also have 'parentally assisted FTBs' (now estimated by the CML to be running at around 80 per cent of current FTBs) suggesting that the number of young

unsupported FTBs is now very low. This gives a clear sense of the pressures that exist. Government and other studies suggest there are now well over 1 million would-be home-owners waiting to access the market.

There is a huge literature on the role of house prices in preventing access to home-ownership. House prices have risen faster than incomes over recent decades, despite attempts by the previous government to address this through introducing housing targets to increase supply (Barker, 2003, 2004; Heywood, 2011). The situation has not improved since the recession because it was triggered by a collapse of lending which in turn has made lenders far more cautious, demanding large deposits which first time buyers do not have.

Since the downturn the mortgage market has shrunk considerably. At the peak in 2007 some £360 billion was lent on mortgages. In 2010 it was £135 billion and there is little to suggest this will change quickly. The reduction is a reflection on the much reduced funding available to lenders and the scale of repayments to government as well as business decisions to scale back. With new tighter requirements and regulations regarding both the level of capital to be held to back lending and tighter controls on the lending taking place we do not expect lenders to return to very high loan-to-value lending for some time (100 per cent loans were commonplace – they no longer exist and 95 per cent loans will be difficult for some while).

How do we make home-ownership more affordable and accessible for first-time buyers?

This has become a pressing issue and both government and the market have been seeking to address this. There are a number of new developments:

- The government has announced £500 million of funding for its shared equity scheme with housebuilders. This might help 10,000 FTBs.
- Lloyds Banking Group (LBG) has announced its Lend a Hand scheme with local authorities, relatives and some small societies. This is based on a 5 per cent deposit and a 20 per cent 'savings' placement by the partner body in an LBG account (or equivalent). This then supports a 75 per cent loan by LBG or other participating lender.

- The CML will shortly announce a scheme supported by large lenders to support lending on new-build homes. Housebuilders will create a pool into which they place 20 per cent of the value of the home with this pool being used to underwrite any losses on loans to the FTBs who use the scheme.
- Castle Trust has recently announced a partnership mortgage where the Trust puts in 20 per cent of the cost of the home and takes 40 per cent of any uplift.

As this suggests, there is action around mortgage supply but there must be questions as to how effective these different initiatives will be. Other answers have been generated through the recent JRF Housing Market Taskforce which sought to find ways of making long-term structural adjustments to the UK housing market to bring affordability back into line with incomes (Stephens, 2011).

There have been calls to bring back mortgage interest tax relief for FTBs and to further reduce stamp duty for properties below a certain price. The current housing minister is keen to see the use of mortgage insurance indemnity policies (MIGs) to insure lenders against losses on higher loan-to-value mortgages. This product exists in many countries but the market in the UK has collapsed because lenders found insurers would not pay out on claims (and insurers felt lenders had lent outside of agreed guidelines). There is no current appetite among UK insurers or lenders to return to this.

It is thus difficult to highlight any policy or initiative that will help FTBs back into the market beyond bringing prices down and easing affordability. In practice the flat housing market, with falls in real and even nominal prices, is doing just that and both the Bank of England and HM Treasury see this as a way forward not least when mortgage supply is so limited. The recent reports from the Smith Institute (Heywood, 2011) and the Institute for Public Policy Research offer little in terms of ideas to support home-ownership. Indeed the focus of the former is more about helping private renting.

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Section 6: Social housing

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What is the role of social housing provision?

- Social housing is increasingly for poorer and vulnerable households. Some of these households need secure and cheap accommodation for their whole life. Many may be able to pay more at different times of their careers. Still others need a stepping stone.
- There is a growing need to address the housing problems for lower income employed households who may ultimately be able to buy and pay for their own housing.
- Social providers are expected to achieve high standards in terms of building and support for tenants. They are also expected to use the asset effectively in terms of the allocation of housing as well as the managements and maintenance of the stock.
- Social providers work in a highly regulated environment which helps to make it possible to raise funds from the private sector. The risks involved have been low in the past given the regulatory regime and the support of both supply and income related subsidy.
- This position is changing as supply subsidies fall, some constraints are put on housing benefit, and welfare payments are made to tenants rather than directly to landlords.
- Social suppliers have in the past had large grants to provide sub-market rents and additional housing. The system needs to support the effective re-use of that subsidy and a concentration on matching subsidy to need – so shallow/short-term subsidy when people have the potential to pay their own costs in the medium term; long-term security and payment support where they do not have this capacity.
- Sub-market rental property should be targeted at those in need of subsidy if they are not able to afford adequate housing. Setting higher standards increases costs and therefore the need for subsidy. Prioritising has to be aware of these trade-offs. There is a strong case for increasing rents to enable more housing to be built. But there are costs in terms of funding risks and welfare dependency.

Who should live in the social sector?

- People want to live in social housing mainly because of security and affordability. Some of their benefits will decline in the new environment as rents rise and tenancies may be fixed term.

- The main benefits of social renting as compared to the private sector should include tenant oriented management, efficient maintenance and improvement of the stock, and an environment where tenants can be supported to meet their employment and housing aspirations.
- Those who live in the social rented sector should be those who have longer term and additional needs.
- The mixed communities agenda with mixed tenure can help ensure that such households are not segregated. Intermediate tenure housing for those in employment, provided by housing associations and other registered providers, is the most obvious way directly to ensure mix.
- Social housing with sub-market rents must be allocated in relation to needs because the costs to the individual household and the community are too high if they do not obtain stable secure and adequate housing.

Relationships with private renting and owner-occupation

- There is little case for replication, as opposed to ensuring a full range of tenures to address different requirements of different household groups.
- Who owns the housing should be a matter of the relative efficiency of provision, maintenance and management, the effective use of capital and subsidy, and the capacity to manage risk.

Decent Homes

- The Decent Homes programme has been one of the most effective housing programmes (although not necessarily least cost). However the process is ongoing and needs to be funded within the rents regime and to be oriented towards the sustainability agenda as well as tenant attitudes.

What is the role of social housing providers? Who should live in social housing and how should it be allocated?

What is the role of social housing providers?

The core role of social housing providers has been shifting since the late 1970s from providing accommodation to a wide range of mainstream households (the public housing model or the universalist provision of social housing in France) towards poorer and more vulnerable

households (the social housing model or the targeted provision of social housing) (Malpass and Victory, 2011; Scanlon and Whitehead, 2011).

Social landlords often play a leading role in the renewal and regeneration of some of the most deprived parts of the country. In addition, they (particularly housing associations) have been increasingly involved in 'non-core' activities, commonly known in the sector as 'community investment' activities, providing services such as employment training and financial inclusion to tenants and others (Mullins and Wilkes, 2011).

Social sector housing has an important role in targeting government subsidy to ensure additional housing investment and in recycling past grant through low cost home ownership (LCHO) sales and lower rents (Stephens, *et al.*, 2005).

Who should live in social housing and how should it be allocated?

Clarke, *et al.*, (2008) reported the following groups are most likely to seek social housing:

- private renters with children
- younger, poorer and less-educated people (typically under the age of 45)
- black and minority ethnic households.

However, to counter the trend of residualisation in the social housing sector, DCLG (2009) sets out the government's strategic view of the objectives and outcomes that local authorities and social housing providers should seek to achieve in their allocation policies. These are:

- providing support for those in greatest housing need, including people who have experienced homelessness
- ensuring allocation policies comply with equality legislation
- promoting greater choice for prospective and existing tenants
- creating more mixed and sustainable communities
- promoting greater mobility for existing tenants
- making better use of the housing stock
- supporting people in work or seeking work
- delivering policies which are fair and considered to be fair.

Achieving these objectives means that social housing providers have to get the balance right, particularly given the constraints within which local authorities operate in terms of the supply of and demand for social housing. While the top priority of social housing allocation is to prevent homelessness, social housing providers are given a greater flexibility

within their allocation scheme to adapt and respond to local needs; for example, setting a small percentage of lettings to be allocated to employed households or existing social housing tenants and those who do not fall within any of the reasonable preference categories.

In addition, the Localism Bill was introduced to Parliament on 13 December 2010. While the government has made clear that it will protect the security and rights of existing social housing tenants, including when they move to another social rent home, proposals in the Localism Bill will allow social housing providers more flexible arrangements for people entering social housing in the future. Social landlords will be able to grant tenancies for a fixed length of time. The minimum length of tenancy will be two years, and there is no upper limit on the length of tenancy. Councils will continue to be able to offer lifetime tenancies if they wish. It is argued that more flexible tenancies will allow social landlords to manage their social homes more effectively and fairly, and deliver better results for local communities (DCLG, 2011).

Why do people want to live in social housing and are there aspects of social housing that could be replicated in other types of tenure?

Clarke, *et al.* (2008) report that people apply for social housing when they fail to access accommodation that meets their needs or has the security of tenure that they seek. Events such as childbirth, eviction or divorce can also prompt households to apply for social housing. Moreover, people want to live in social housing because it gives many families stability and security in a fundamental part of their lives. The quality of social housing is usually significantly higher than that in the private sector. It has also protected affordability for its tenants even while real house prices have doubled in the last decade (Hills, 2007). Around two-thirds of social housing tenants are also protected from rent increases through housing benefit which at the limit cover the whole rent.

However, the recent introduction of fixed term tenancies to new tenants, the 'new affordable rent' regime and housing benefit caps may reduce the security of tenure of social housing and the affordability of social housing, but increase the mobility between social and private housing sectors. One could argue that these new policies have aligned the current practices between the two housing sectors and enhanced the 'choice' between the two sectors. Policy however needs to be more alive to these trade-offs in local market contexts and their impact on more vulnerable households (Kelly, 2011).

What should the relationship be between social housing and the private rented sector and home-ownership?

On the supply side, the introduction of Right to Buy, other sales of social housing units to the private sector and the shared ownership schemes, the growth of the buy-to-let market and the conversion of some Right to Buy units to private rental units, have dramatically changed both the tenure structure and the meaning of tenures from those 30 years ago (Murie, 2009). Reforms to the funding of new social housing in England in 2004 enabled private sector firms to compete with existing non-profit social housing providers for grant to build new social housing (Mullins and Walker, 2009). The demarcation between social housing, the private rented and owner-occupied sectors has increasingly become blurred.

On the demand side, there is no housing supply subsidy to home-owners with the exception of shared ownership schemes. Two different housing subsidy systems are operating at the demand side of the social and private rented sectors. Social tenants are protected by regulated annual rent increases and Housing Benefit payable on the full rent. Private tenants are exposed to market rents and the reduction in the basis for setting Local Housing Allowance (LHA) from the median rent to the 30th percentile of local market rents from January 2012, and the introduction of caps on LHA rates for those living in very expensive property. The government intends, by 2017, to have incorporated Housing Benefit and LHA into a Universal Credit, which will combine all benefits and including a housing credit to cover housing costs (Lister, *et al.*, 2011).

Because of the credit crunch and the growing instability of the labour market, CIH (2009) suggests a flexible tenure which can:

- adjust the offer to different households in different situations
- allow households to move between tenures without moving house.

In fact, there are some established examples of flexibility in tenure: shared equity and shared home-ownership schemes; Sale and Rent Back (a mortgage rescue scheme for shared owners in the risk of repossession); and Rent to Mortgage (one-way movement from intermediate rent to shared ownership developed by the Homes and Communities Agency in England and also offered by some private developers in Scotland).

CIH (2009) argues that the ability to change tenure both 'down' and 'up' the housing ladder could support community stability, reduce the need for emergency interventions, and tackle poverty and its associated

problems (down) as well as supporting achievement of individuals' housing aspirations and access to housing wealth (up). It could also enable households to express tenure preference regardless of their financial circumstances (e.g. choosing to live in social housing for ideological or service-related reasons rather than income-based ones).

The objective should be to ensure that different landlords should concentrate on providing the services which they do most efficiently (Monk and Whitehead, 2011). Social landlords clearly have different skills and different markets compared with private landlords. Clearly, there are overlapping demands and different demands over the consumers' housing careers.

How do we ensure that all social homes are decent?

Since April 2010, the Decent Homes Standard has been a regulatory requirement for social landlords. It has significantly improved the standard of all social homes. In 1997, there were 2.1 million houses owned by local authorities and housing associations that did not meet the Decent Homes Standard. By the end of 2010, 92 per cent of social housing met the standard of being warm and weatherproof with reasonably modern facilities.

The Decent Homes Standard has had a beneficial effect (UK Parliament, 2011). One area is the improvement of asset management skills by landlords. Circle Anglia, which manages 51,000 general needs, sheltered and supported homes, stated that: 'Many social landlords now have excellent information on their stock condition. This now allows very accurate long term refurbishment planning.'

Property consultants Ridge and Partners echoed this, saying 'the Decent Homes Standard has successfully brought a new focus onto effective asset management, including the value of robust asset data (intelligence), sustainability assessment (viability), effective procurement and resident involvement'.

Another area is the effect of work programmes on local economies: Fusion 21, a 'social economy business' working with social landlords to generate cost savings, said that 'skills training and job creation has been one of the major successes through certainty of construction activity'.

The Hyde Group stated:

A whole supply chain developed capacity to deliver the Programme, providing employment for thousands of people. A number of

maintenance contractors transformed their businesses on the back of the Programme, forming a mini-economy with suppliers of new kitchens, bathrooms and windows.

Evidence also showed a range of positive effects on lifestyles in areas where stock had been improved. Bolton at Home Group stated that, as well as improving housing stock, the programme 'provided the potential for community engagement, community cohesion and socio-economic development'. Sheffield City Council judged that the work 'gave confidence to council tenants that they were valued and could have pride in their homes and communities'. The National Federation of Arms Length Management Organisations (ALMOs) attributed to the programme a list of positive effects including improvements to health, reduced crime rates, reduced poverty and greater civic pride.

A recent announcement from the Homes and Communities Agency (Homes and Communities Agency, 2011) reported that the 2010 Spending Review settlement made £1.6 billion available to local authority landlords – including those with housing stock managed by ALMOs – to help tackle the backlog of homes that are not meeting the Decent Homes Standard. The government, through the Homes and Communities Agency, made available another £500 million to 'gap fund' existing transfers of housing stock. A total of 46 local authority and ALMO landlords will receive backlog funding over the next four years to help refurbish around 150,000 homes. Twenty-eight stock transfer organisations will benefit from the gap funding, which will contribute towards the cost of bringing poor value housing transferred from local authorities up to the Decent Homes Standard. However, this is misleadingly optimistic – the actual allocations for Decent Homes have been significantly cut (and the programme lengthened) . Most landlords will only be making the building fabric sound and will drop improvements to kitchens and bathrooms.

However, not every social tenant wants work carried out to their home to bring it up to the Decent Homes Standard. For example, in 2009, 24,806 housing association tenants refused works necessary to bring their homes up to the Decent Homes Standard and such works had to be deferred (Tang, 2010). It is possible that such improvement involved large-scale programmes of kitchen and bathroom renewal, work which might be disruptive to tenants and which could give rise to rent increases.

Also from 2011, housing associations were given an additional affordable rent option to offer fixed term tenancies to some new tenants at a rent level higher than social rent – with landlords able to set rents at up to 80 per cent of local market rents. Affordable rent properties will enable housing associations to raise funds to build more affordable housing which meets the Decent Homes Standard.

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Section 7: Private rented sector

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Why do people live in the private rented sector?

- Ease of access is a major reason why people live in the private rented sector.
- Private renting is a mainstream tenure of choice for some, providing easy access and flexible accommodation, often in central locations offering good access to employment. It is particularly popular with younger people and students for these reasons.
- Private renting is also playing an increasing role in providing for those unable or unwilling to become owner-occupiers. This is likely to continue while financial conditions remain tight and additional regulation constrains access.
- Private renting is also playing an increasing role in housing those who might otherwise be in the social sector. These households require good quality management and security (although not always in relation to the specific dwelling).
- Private renting is less suitable for those more vulnerable and especially older households.

What do people want from a home in the private rented sector?

- Flexibility, choice and responsive management are key features sought from the private rented sector.
- Income-related support (Housing Benefit) is a key safety net for some.
- Tenants want transparency with respect to terms and conditions and the capacity to make contracts on a level playing field with landlords.
- The major concern is the lack of good and particularly responsive management and the lack of professionalism of many management services. They are also concerns about deposits not being returned.
- Many private tenants choose to keep housing costs lower by sharing and living in poorer areas at high density – usually for short periods. Regulation should not restrict this flexibility except when there are health, environmental and neighbourhood costs.

How do we tackle bad landlords? Does the private rented sector need better regulation?

- Landlord registration is compulsory for most landlords in Scotland, but is optional in England and Wales. There are concerns that optional landlord registration schemes help to segment the market into those who provide reasonable housing and face reputational risk if they don't register, and those who don't register but continue to provide poor quality housing.
- There remain concerns about rogue landlords, but evidence on the scale of the problem is hard to come by. Informality does not necessarily equate with bad practice from the tenant's point of view.
- Legislation currently regulates the use of the private rented sector and covers houses in multiple occupation (HMOs) and overcrowding.
- There is evidence that rent regulation (particularly minor style regulation between the private and social sectors) generates more stable and functional private rented sectors (Germany, Switzerland etc). However in the UK context additional rent regulation is likely to scare off more stable landlords oriented towards longer term returns.

Why do people live in the private rented sector?

As highlighted in a recent review of the private rented sector (PRS), there are a wide variety of reasons why people live in the sector (Rugg and Rhodes, 2008). The sector is traditionally seen as one of transience, associated with students and young mobile households renting for a period of their lives before moving on to owner-occupation (Ball, 2010; Rhodes, 2006).

Over the last 15 years it has reversed a century of decline and has grown in size. This has meant that as well as the traditional young mobile client groups other client groups have increased in size: the sector today houses a considerable number of longer term households many of whom are dependent on housing benefit, and at the bottom end of the market plays a role in housing those unable to gain access to any other form of housing (DCLG, 2009; Robinson, *et al.*, 2007; Rugg and Rhodes, 2008). It also houses many households who aspire to own their own homes but are not (yet) able to afford to do so.

The Survey of English Housing asks recent movers why they moved, and their answers suggest that many moves into the PRS are associated with a change in circumstance such as divorce or a change

of job (DCLG, 2009). The main attributes of the PRS that attract households include:

- ease of access and low costs of moving – so those who expect to be mobile and those who have sudden changes in housing situation such as separation from a partner often move to the sector
- ease of exit, making it useful when uncertain about future behaviour. For instance, households often live first in rented accommodation when they move to a new area for employment
- availability to students – it is the major tenure of students living away from the parental home.

For these reasons the PRS is often associated with the early stages in a housing career – rarely seen as suitable for older households and evidence from Australia suggests that it may not be appropriate for elderly or vulnerable households (Jones, *et al.*, 2008). However the evidence suggests it does house substantial numbers of households and families in the middle age groups, especially in London. The proportion of households in their late twenties and early thirties in the sector has increased particularly in the last 15 years (DCLG 2009; Rugg and Rhodes, 2008). The ease of access also means that the sector is particularly popular with recent migrants (Robinson, *et al.*, 2007) and in England houses a substantially higher proportion of people born outside the UK than any other tenure (DCLG, 2009).

The Rugg review also highlighted the different types of role the sector plays in different areas, with London having the largest sector overall but also the highest proportion of upper end, professional renting and also of recent migrants within the sector. Industrial hinterlands in contrast have much higher levels of tenants who are out of work and in receipt of benefits.

The affordability of the PRS compared with owner-occupation is also a major reason why households live in the sector. Deposits required to access the sector are much lower than those typically required for owner-occupation, especially in the recent financial climate of constrained mortgage lending.

Housing Benefit/Local Housing Allowance also means that rent (up to upper limits) will be paid if the tenants are unable to afford it. This acts as a safety net for tenants if their circumstances change, but also allows access to tenants who are dependent on benefits from the start.

The PRS is increasingly seen as an alternative to social rented housing, and as an answer to the shortage of social housing and ever growing waiting lists and, given the difficulties of access to home-ownership, a way for younger households to secure a home. In recent years the sector has increased its role as a provider of housing for young people and low-income households. Accessing the sector remains problematic however, and concern has focused particularly on difficulties with Housing Benefit, and for those who are unable to pay the deposit usually required.

Over the last 10 to 15 years, the UK government has taken an interest in developing the role of the private rented sector, and a growing number of schemes have been formulated aiming at tackling the difficulties many people experience in accessing the sector, and to prevent homelessness (AHAS, 2010; DCLG 2008, Crisis, 2010; Scottish Government, 2009). These schemes commonly include some or all of the following features:

- information to help match prospective tenants to landlords
- procedures and agreements that reduce the risks to the landlords
- a rent deposit or rent guarantee scheme
- support and assistance to help with the move
- on-going tenancy support
- wider support to help the tenant find work or training
- leasing schemes, or social letting agencies, often run by housing associations or local authorities providing a range of housing management functions.

The recent reforms to Housing Benefit will, however, make it harder for tenants dependent on it to find properties that they can afford even with this kind of support (Fenton, 2010). The Welfare Reform Bill too, will impact upon the ability of some households, particularly larger families, to afford the PRS, even with housing benefit (Lister, *et al.*, 2011).

It is also important to note that much research has shown that the sector houses a larger proportion of tenants than any other who report that they would prefer to live in another tenure and that it is rarely the long-term tenure of choice (Clegg, *et al.*, 2007; ECOTEC, 2009; Harries, *et al.*, 2008; Edwards, 2005). The costs of owner-occupation have placed it beyond the reach of many households, and access to social rented housing is also highly constrained, meaning many households rent privately due to the lack of any alternative.

The recent difficulties in the housing market have also created ‘reluctant tenants/landlords’ – households who need to move (often for work reasons) but are unable to sell their home, so rent in the short term, sometimes renting out their old home to another household.

What do people want from a home in the private rented sector?

The flexibility of entry and exit, discussed above, choice of dwelling and low transaction costs are important features for many tenants in the PRS (Clegg, *et al.*, 2005; Edwards, 2005). The safety net of Housing Benefit payments is also very important to some within the sector.

Good quality, management and maintenance are important to all renters, and there is evidence that private renters value landlords who respond quickly to problems (Clegg, *et al.*, 2005; Edwards, 2005). They also value the lack of responsibility for maintaining the home themselves and the resultant costs that owners incur (Clegg, *et al.*, 2005; Edwards, 2005).

Private rented housing contains a higher proportion of flats than other tenures, suggesting that private renters are more flexible in their space requirements and/or the need for a garden than owners. It is often concentrated in the centre of cities, and in particular in London, suggesting that location may be more important than size of dwelling for tenants. Sharing accommodation with others is also much more common in the PRS than in any other tenure particularly in urban areas, again suggesting that many households are prepared to sacrifice personal space in order to keep costs down, or live near to where they want to be. Those on Housing Benefit under the age of 35 will in the future be restricted to claiming only the amount of rent needed to cover a rented room with shared facilities. This, along with the continuing pressure on the housing system, is likely to increase shared housing.

Tenants also want transparent and enforceable contracts with their landlords. The Rugg review highlighted concerns in some areas of ‘retaliatory evictions’ whereby when tenants tried to enforce their rights to get repairs carried out, landlords evicted them in response without having to give a reason.

Affordability is a key concern of tenants in the PRS (DCLG, 2009), with evidence suggesting that the proportion of private tenants who are struggling to pay their rent nearly doubled between 2009 and 2010 to 24 per cent whilst the proportion actually in arrears tripled from 2 to 6 per cent over this same period (Shelter, 2010a).

Although, as noted above, the sector is more accessible to households in lower incomes than owner-occupation, rent levels in most of the country are much higher than social rents. This, along with the steep housing benefit taper, causes a widely-acknowledged poverty trap giving tenants little incentive to move into low paid work (ECOTEC, 2009). The current government's proposals to move to Universal Credit should go some way to addressing this problem, though high rents will continue to mean that low-waged tenants are reliant on Housing Benefit. The proposed Housing Benefit reforms are also likely to mean that affordability becomes a key concern of tenants reliant on Housing Benefit, many of whom will find the benefit they receive no longer covers their rent in full (Fenton, 2010).

The Survey of English Housing also suggests that some tenants, or ex-tenants, of the PRS are concerned about non-return of their deposit, with a third having had their deposit not returned, or only returned in part (DCLG, 2009).

Private rented housing is the sector that most often includes multi-adult households sharing facilities. Research reports mixed views on whether people want to share (ECOTEC, 2009). Nevertheless it is acknowledged that shared accommodation may become more common in the future (ECOTEC, 2009; Clapham, *et al.*, 2010). The housing benefit reforms reducing the amount paid to single tenants aged 25–34 to the local amount for a room with shared facilities is also likely to increase sharing, particularly in this age group.

How do we tackle bad landlords? Does the private rented sector need better regulation?

There are several ways in which the PRS either is, or could be regulated. These concern:

- landlord registration
- legislation over the use of properties within the PRS
- security of tenure and limiting rents.

Landlord registration

The Scottish Government has recently introduced a national landlord registration scheme with which nearly all landlords are obliged to register (Johnston, 2008). There is currently no compulsory registration system for landlords in England and Wales. The previous Labour government consulted on how best to improve professionalism and quality in the sector (DCLG, 2010) and recommended taking forward a compulsory

registration scheme but the current government has decided not to take this forward and registration remains voluntary.

There is evidence that non-compulsory registration schemes can serve to segment the market into those who provide reasonable housing and face reputational risk if they don't register, but who face burdens of registering; and those who use their relative power to provide poor quality and poor value for money (Rugg and Rhodes, 2008).

There have therefore been calls for registration to be made compulsory (Shelter, 2010b). As acknowledged in the Rugg review, the focus on legislation around houses in multiple occupation (HMOs, see below) has tended to mean that other work dealing with poor landlords has tended to become reactive rather than pro-active.

Examples of rogue landlords offering low maintenance and inadequate standards have caused concern about the PRS and given it some bad coverage (Shelter, 2010b). It has been known for some time that the properties in the worst conditions tend to be found in the PRS, often rented to poor or vulnerable households (Groves, *et al.*, 2006; Rhodes, 2006; Scottish Government, 2009; Shelter, 2010b)), and that problems with the private rented sector are a major driver behind moves to the social rented sector (Clarke, *et al.*, 2008)

The Rugg review considered the evidence around rogue landlords and concluded that it is difficult to make any reliable estimate of the scale of illegal or poor practice. Some landlords operate quite informally, though this may not necessarily disadvantage the tenant, while there are some examples of landlords who knowingly abuse the law and treat tenants badly (Rugg and Rhodes, 2008)

Nevertheless, as the Rugg review points out, the Survey of English Housing has continually shown PRS tenants to report higher levels of satisfaction than social tenants (DCLG, 2009; Scottish Government, 2009). This suggests that the large majority of landlords in the PRS operate well and offer a good service.

There is, however, some concern that the under-supply of housing generally in most parts of the country means that even bad landlords are easily able to find other tenants, and that therefore the market cannot be relied on to regulate the sector (Rugg and Rhodes, 2008).

Legislation around the use of properties within the PRS

There are rules around overcrowding that prevent landlords letting to tenants who would be statutorily overcrowded (though this measure allows for household members sleeping in living rooms, so only covers severe overcrowding).

HMOs have been a cause of some concern, especially in areas where there are large numbers of them with a resultant impact on fire risks, parking, etc. There is therefore legislation around HMOs, which must be licensed. There is also regulation around deposits, aiming to ensure that tenants get them back; the Housing Act 2004 ensured that tenants on assured shorthold tenancies must have their deposit placed in one of three government-approved schemes until the tenancy is over.

Security of tenure and limiting rent levels

Rents in the private rented sector are only regulated for tenancies granted before 1989, so very few tenants today are covered. There is little debate today about bringing back fixed rent levels.

Most tenancies in Britain are assured shorthold tenancies, with a fixed minimum period (often of six months) after which both the tenant and the landlord can terminate the tenancy with a relatively short notice period (often a month).

Whether greater security of tenure would improve the sector has been the subject of some debate (Ball, 2010; Rugg and Rhodes, 2008). Rugg and Rhodes argue that the perception of insecurity within tenure is disproportionate to the actual rate of tenancies being ended by landlords. There is concern that over-regulation of the sector may deter landlords from entering it, and that mortgage lenders may be concerned over longer leases. This is an area where there are significant differences between the UK and other countries, causing many to examine the operation of the PRS abroad in order to establish what the impact of greater security of tenure in the UK might be. Ball's review of international comparisons concludes that the evidence is mixed and raises concerns that landlords, not wanting to be stuck with long-term tenants they can't remove, may act to avoid reduce the risk of this by discriminating in favour of the types of tenants likely to move on of their own accord, thus potentially making it harder for families or benefit-dependent households to gain access (Ball, 2010).

Kemp and Kofner (2010) compare England with Germany, exploring why free market rents and weak security of tenure are considered essential

for a successful PRS in England when neither exists in Germany which has a very large PRS. They conclude that in England, where house prices have been extremely volatile, landlords are interested in capital gains and therefore the ability to obtain vacant possession at the right point in the cycle is crucial for them. At the same time the government has made it clear (in the past at least) that the sector plays an important role in labour mobility and houses people saving up deposits for home-ownership, so that security of tenure for tenants is not considered an issue. However private renting remains a small sector. In contrast in Germany, low inflation and low interest rates, together with depreciation allowances and negative gearing (the ability to set losses on rental income against income from other sources to reduce their tax liability) has made rent controls acceptable to landlords.

Similar questions were addressed in a study undertaken for the previous government (Oxley, *et al.*, 2010) which concluded that rent controls and tenant protection are not incompatible with a large private rented sector in England. The study looked in detail at four countries with large private rented sectors – the USA, Australia, Germany and France – and compared them with England. They identify several key differences between England and the four selected countries with a large private rented sector:

- In the larger private rented sector countries, measures to support the sector have been in place for several decades.
- There is a broader demand base in other countries – both from low- and high-income households.
- There is no long-term security of tenure in England (although security is relatively short in the USA and Australia).
- Rent increases are subject to legislative limits in France and Germany.
- Individual investors benefit from depreciation allowances in the other four countries.
- Losses on current rental income can be set against other income for tax purposes in the other four countries.
- Capital gains taxation encourages long-term holdings of property in the other countries.
- As a result of continuous (re)investment, the private rented housing stock in the other countries is more attractive and better quality than in England.

- In England, institutional investors do not perceive that they can make a reasonable, risk-adjusted rate of return from private rented property.
- In England there are no significant programmes to encourage the private rented sector to invest in and manage affordable housing – this contrasts with the other four countries.

The authors set out recommendations on how to revive the private rented sector in England in terms of the size of the sector, the volume of house building intended for private renting, and quality issues.

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Section 8: Housing design and quality

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Key point

The gap between design aspiration and the actual performance of low and zero carbon homes needs to be reduced. Robust evidence is required to ensure that design claims are achieved in practice and that tenants are properly supported to use their new homes in energy efficient ways.

Achieving sustainable homes

A focus on achieving sustainable homes requires careful consideration of a range of factors including which communities might be most affected by the impact of climate change, *where* homes are built and the standard of the homes themselves. Housing policy has focused largely on the standard of homes but also needs to take into account these wider issues. For example Houston, *et al.* (forthcoming) argue that it is crucial to understand the population characteristics of those affected by climate change, not just the details of affected properties. This enables more targeted work to inform people of the risks of climate change and to build people's capacity to mitigate or adapt to the impact of climate change (Zsamboky, *et al.*, 2011; Houston, *et al.*, forthcoming).

Places at particular risk of climate change such as flooding also need particular attention (Zsamboky, *et al.*, 2011; Houston, *et al.*, forthcoming). Zsamboky, *et al.* (2011) highlight the five main vulnerable coastal areas of south Wales, north-west Scotland, Yorkshire and Lincolnshire, East Anglia and the Thames Estuary as likely to have a particularly rapid rise in sea level or to experience the greatest impact resulting from changes to sea levels. They note how this creates wider social justice implications than the quality of people's homes since climate change can damage coastal livelihoods such as those based on fishing or tourism. It can also blight whole areas where it is not cost-effective to create coastal or flood defences with the resulting crash in local prices and inability to insure homes. It is therefore crucial that climate change is taken into account in decisions on planning applications and new infrastructure in order to avoid putting more people at risk (Zsamboky, *et al.*, 2011).

Of course building sustainable new homes is also crucial to addressing climate change. New social housing in particular is leading the way in producing lower carbon homes. Worryingly however research has highlighted that the expected performance of low carbon homes is not

always achieved in practice (Bell, *et al.*, 2010). Heat loss can be higher than expected and may result in new homes that are only marginally in advance of existing standards. Bell, *et al.* (2010) suggest that this gap between design aspiration and actual performance can be addressed through a range of measures such as:

- **Procurement** – housing providers taking more interest in the energy and carbon performance of homes, ensuring that claims made by designers, contractors, developers and suppliers are supported by robust evidence.
- **Design** – design processes being improved to focus on the likely performance in practice, rather than theoretical estimates, with more consideration given to supporting low carbon lifestyles.
- **Construction** – improving processes to include in-production testing and ensuring that changes made during construction are closely controlled so that housing energy performance is not compromised.
- **Resident support** – developers and landlords providing meaningful guidance and support for residents on using their homes to support energy efficiency.

A national feedback loop to collect and analyse information on completed zero-carbon developments and their performance would be an invaluable resource to provide evidence on what works in practice. This could include a focus on reducing fuel poverty and what influences behaviour change as well as the technical specifications for new-build homes or improvements to existing stock. This feedback loop can then be used to ensure that resources are being invested in what makes the most difference to mitigating the impact of climate change on poverty. This would enable sustainable housing policies to more fully consider social, economic *and* environmental factors within their remit.

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