

In the mix: the need for a diverse  
supply of new homes

Shelter

This briefing sets out Shelter's position on the tenure balance of housing output growth that England needs. It follows on from Shelter and KPMG's joint report setting out the need for increased housing supply in England and a plan for delivering it, *Building the homes we need*.

## Acknowledgements

Report written by John Bibby and Deborah Garvie, with thanks to Pete Jefferys, Toby Lloyd, Tom Loader, Tom McCarthy and Steve Akehurst.

# Executive summary

**Building 250,000 homes a year should be a central focus of the next government.** But achieving this without a balanced mix of tenures in housing supply will be neither possible nor desirable. A balanced mix must include market, intermediate<sup>1</sup> and social rented homes (see box 1 for terminology).

Providing a balanced mix of tenures is essential to the core objective of increasing overall housing output.<sup>2</sup> History shows that over-reliance on output of a single tenure undermines total new supply. Since the Second World War, no single tenure has achieved output of 250,000 homes a year, and periods when a single tenure has dominated supply have also been characterised by low levels of total output. By contrast, when output has been at its highest it has also been mixed, rising to levels well in excess of 250,000 homes a year.

The reasons for this positive correlation between tenure diversity and levels of output are predictable. Delivering supply of different types of home requires a diversity of different funding sources and delivery models involving both the private and public sectors. As well as maximising finance for and the facilitation of output in the short term, this diversity makes the housing system more productive over the long term by making it more resilient to fluctuations in house prices and less prone to cyclical shocks. Diversity of supply will not only help us to increase supply to 250,000 homes a year, but will help ensure that high levels of output can be sustained over time.

However, balanced growth is not only necessary to ensure that total output reaches 250,000 homes a year sustainably: diverse output growth will bring benefits that could not be delivered by expanding output of one tenure alone.

England's housing crisis has impacted different people in different ways, and no single tenure can offer the best solution for everyone. Each different type of housing plays a different role in the English housing system, catering for different preferences and needs – and we need more of all of them. Just as not everyone needs an intermediate or social rented home, not everyone will be able to afford to buy, even if total housing output is dramatically increased and house prices stabilised.

With sensible reform the expensive and unstable private rented sector could potentially meet the needs of more people, but it is unlikely that it will be able to do so for

everyone who is unable to buy a home. In order to do so it would need to be considerably cheaper, with consistently high standards and much more secure. While Shelter remains committed to improving private renting, it would be unwise to rely on such dramatic change in the private sector occurring soon.

We will continue to push for improvements to the private rented sector, but it remains the case that the best way to meet the different preferences and needs of all of those left behind by the housing crisis in the immediate future is to deliver a diverse mix of new homes. Meeting people's preferences and need through building a diverse mix of homes will deliver various benefits that could not be achieved by building a single tenure alone.

By building more market homes we will:

- help meet people's aspirations to buy a home of their own
- increase competition and choice in the private rented sector
- contribute to the supply of new intermediate and social rented homes

By building more intermediate homes we will:

- bring the benefits of home ownership to people who have been shut out by the market
- provide a better alternative to private renting
- help halt the steady rise of in-work housing benefit claimants

And by building more social rented homes we will:

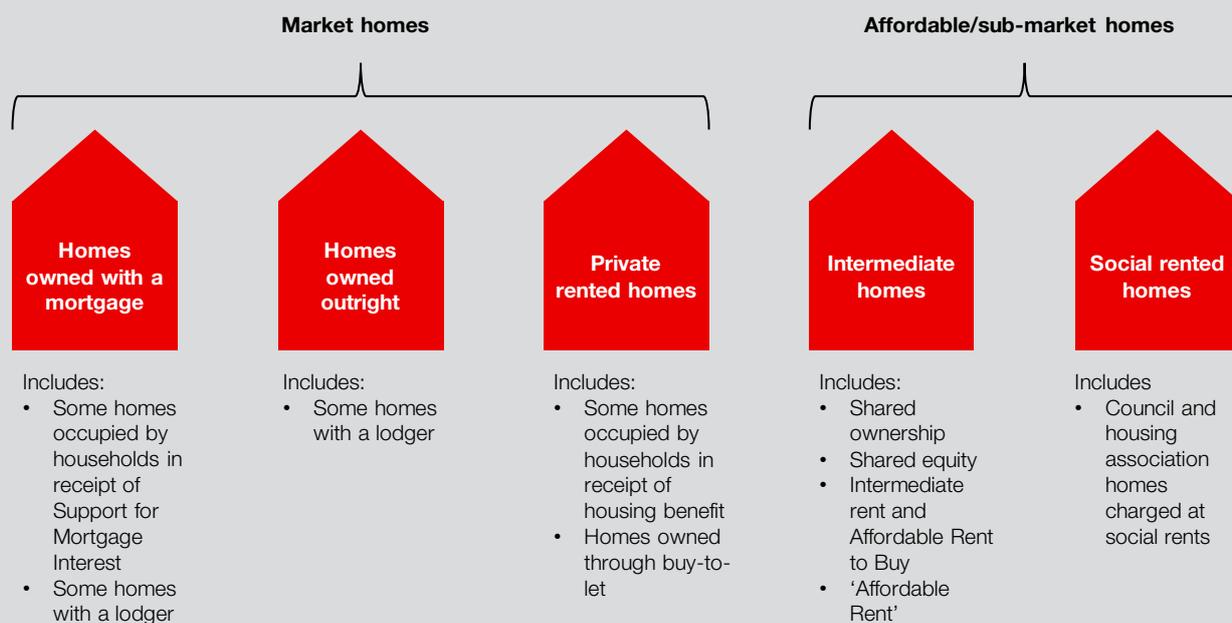
- provide secure and decent homes for people in housing need
- bring down the housing benefit bill
- reduce welfare dependency
- efficiently contribute to total housing output

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1. Shelter considers 'Affordable Rent' homes to be part of the intermediate sector National Planning Policy Framework, DCLG

2. The flow of newly built homes

## Box 1: Terminology



**Homes owned with a mortgage** – Homes that are occupied by owners with outstanding payments on their mortgage. Some of the households occupying these homes will be in receipt of Support for Mortgage Interest and some homes owned with a mortgage will also have a lodger occupying one of the rooms. 33% of households are mortgagors according to the English Housing Survey (this includes shared ownership households).

**Homes owned outright** – Homes fully owned by the occupier, without any outstanding debt on the property. Some of these homes may include a room with a lodger. 33% of households live in homes they own outright.

**Private rented homes** – Homes that are occupied by one or more private renters, where the landlord lives elsewhere. The majority of landlords in England own a small number of homes although some private rented homes are owned by large institutional landlords. Some homes are owned outright while others are owned through buy-to-let mortgages. Some of the households living in these homes are in receipt of housing benefit. 18% of households live in private rented homes.

**Market homes** – All owner occupied homes (with a mortgage or owned outright) and homes in the private rented sector. The planning process does not typically discriminate between the different types of

market home that are constructed, although some other policy levers are currently being used to, for example, encourage the delivery of more private rented sector homes.

**Intermediate homes** – Defined by the National Planning Policy Framework as “homes for sale and rent provided at a cost above social rent, but below market levels...”. This includes a range of housing products, including shared ownership, shared equity and intermediate rent. Affordable Rent homes are in this report defined as intermediate homes.<sup>3</sup> The English Housing Survey does not provide a separate measure of the number of households who live in intermediate homes.

**Social rented homes** – Provided by councils or housing associations, charged at typically low rents with a link to local incomes<sup>4</sup> and have more secure tenure. A detailed definition of social rented homes is included in box 7 on page 15. 17% of households live in social rented homes (this includes some households who live in Affordable Rent homes).

**Affordable housing** – The term given in the National Planning Policy Framework for all intermediate and social rented homes. Because, in effect, this represents all housing with a price fixed at rates below the market price (regardless of its actual affordability relative to incomes) this is also referred to as sub-market housing.

3. The National Policy Framework excludes 'Affordable Rent' from its definition of intermediate homes, but Shelter considers this an unreasonable exclusion given its similarity to other intermediate products. A full definition of intermediate homes is included in box 5 on page 12 and discussion of why Affordable Rent homes do not meet a reasonable definition of social rented homes included in box 7 on page 15.

4. The formula for determining social rents is 30% based on relative local property values and 70% relative local incomes (both at 1999 levels). This formula is then up rated from 2000/01 based on inflation plus 0.5%-1% depending on the year.

## A Government commitment

Housing need and development opportunities vary widely across the country, so the correct balance of different tenures in any one locality or any one site will vary significantly. It is right that planning policies on tenure mix are based on assessment of local housing needs, and implemented by local and city-region planning authorities. But national government also needs a broad policy target for tenure mix – not least to inform budgeting debates. Shelter believes that government should make an explicit commitment to a broad, national tenure mix – while recognising that the precise mix will and should vary across different places and times. Ensuring this overall, national balance is achieved should be made the specific responsibility of a cabinet-level housing minister, to ensure direct accountability and overcome the conflicts that can arise between different departments' agendas.

Based upon assessments of total housing need and development economics, **Shelter proposes that policies aimed at increasing national housing supply should seek a broad tenure balance of 50% market, 20% intermediate and 30% social rented homes. Within an overall minimum supply target of 250,000 homes per year, this would mean increasing the output of market homes to 125,000 per annum, intermediate to 50,000 and social rented to 75,000.**

While total output levels are currently substantially lower than 250,000 homes per year, this 50/20/30 balance of tenures has been delivered in the very recent past. It was the broad mix of homes built as recently as 2010/11. However, significant policy change will be required to achieve this balance while growing total output in the future. Although output of market housing has increased since 2010/11, output of intermediate homes has not, and output of social rented homes has fallen sharply. Between 2010/11 and 2013/14 the number of social rented homes built fell by more than two thirds from 35,000 to just over 10,000. This reduction has not only deprived us of much-needed social homes, it has also reduced total output. If the output of social rented homes had been maintained since 2010/11, total output would have been significantly higher.

Achieving balanced output growth across all tenures requires systemic changes by government. Those changes will not be achieved without a genuine government commitment to balanced output growth and a strong voice in the cabinet who is accountable for delivering it. Shelter has set out the policies that are required for such a change in our joint report with KPMG on increasing total national supply to 250,000 over the course of the next parliament. *Building the homes we need* set out a range of measures that will each differently impact the delivery of different tenures (summarised in table 1).

**Table 1: The primary output impact of policies proposed by Shelter and KPMG**

Primary output impact	Policy change
Market homes	Supporting SME house builders through access to finance and making an explicit government commitment to deliver stable house prices
	Incentivising stalled development sites
	Opening up the land market with more transparency and open data
	Levelling the playing field for developers with national space standards for new build homes
	Providing affordable land for custom builders
Intermediate and social rented homes	Boosting public and private investment in affordable housing
	Setting up a National Housing Investment Bank to deliver cheaper funding for affordable housing development
	Raising borrowing caps on local authority building so that councils can build new social rented homes
Across all housing types	Launching a new generation of garden cities
	Giving councils the power to assemble land for new development through New Home Zones
	Integrating major new infrastructure with the delivery of new homes
	Increasing flexibility for councils to make green belt swaps
	Putting housing at the heart of City Deals to give new power to councils that deliver new homes and assessing housing need and demand across authority boundaries

## Local delivery

A government commitment to deliver balanced output growth does not imply the imposition of centralised or inflexible targets. It does not mean requiring a specific mix of homes on every single new development or in every local area. Instead, the government should empower and incentivise councils to respond to the demand and need for different types of homes that exist within their area. As the national mix of new homes required is based upon aggregated housing need taken from across the country, this approach should lead to balanced output growth if it is effectively implemented and new resources are intelligently distributed.

Given the substantial challenge of doubling total housing output, it is likely that at times output imbalances will occur. Some policy changes that preference one tenure will have a more immediate impact, while policies that preference another tenure may take longer to be felt. Where this happens and imbalances do occur, the government should take a sensible responsive approach. This should not mean limiting or curtailing the output of tenures that are performing well just to deliver a prescribed balance. But it should mean stimulating the delivery of tenures that are under-performing by taking further action, for example:

- by reviewing the financial context for delivery of intermediate and social rented housing, providing grant funding and determining council borrowing limits for building
- by reviewing elements of the legislative and regulatory planning framework for new development such as the definition of viability for new developments
- by reviewing support for small builders or housing associations
- by delivering further garden cities or incentivising the use of New Home Zones
- by taking further action to support local authorities that are working to deliver considerable output growth, and if necessary censuring or penalising those that do not respond to local need.

This will require more regularly collecting and publishing statistics on the balance of output that is being delivered, so that government is able to act early.

By taking this approach government should be in a position to act flexibly – allowing councils to deliver the mix of homes needed specific to their area – while maintaining the national balance of housing output as a meaningful priority.

## Table 2: Recommendations

**Recommendation 1: The next government should commit to increasing home building in a balanced way and make it the responsibility of a new cabinet-level housing minister**

As part of a commitment to deliver a minimum of 250,000 homes a year the next government should make a commitment to delivering broadly balanced housing output of 50% market, 20% intermediate and 30% social rented homes. The definition of tenures should include classification of Affordable Rent as an intermediate product. Delivering this balanced mix should be made a specific responsibility of a cabinet-level housing minister.

**Recommendation 2: The next government should implement the policy package needed to deliver balanced output growth**

The government should implement the full package of policy change proposed in *Building the homes we need*, including boosting public and private investment in sub-market homes, increasing support for SME builders and building a new generation of garden cities.

**Recommendation 3: The next government should monitor the balance of starts and completions**

The government should publish a new statistical release on a quarterly basis including output levels of market, intermediate and social rented homes, using the definitions set out here.

**Recommendation 4: The next government should respond to imbalances**

Where imbalances in output occur, the housing minister should publically explain what further action is being taken to correct them and estimate when output growth will return to a balanced mix.

**Recommendation 5: The next government empower and incentivise local authorities**

The government should implement the package of reform and investment set out in *Building the homes we need* to empower and incentivise councils to respond to housing need in their local housing market, which should be assessed at the level of functional economic areas.

**Recommendation 6: The next government should offer better and simplified intermediate options**

The government should explore new forms of intermediate tenure to widen access to intermediate homes, including low share shared ownership and affordable rent-to-buy homes. Once government has established the most effective intermediate options it should seek to simplify those available.

# We need to build more homes

For decades England has not built enough homes. In recent years we have built under half as many new homes as households that have formed, putting significant pressure on our stock of existing homes. This lack of supply has contributed to spiralling house prices and receding housing affordability, a larger housing benefit bill and more people facing homelessness.

Following a year and a half-long project, in May 2014 Shelter and KPMG published our programme for the 2015 government<sup>5</sup> setting out how the next government can reverse the decades-long trend of under supply and build 250,000 homes a year. The recommendations in that report covered four broad areas for reform:

- Fixing the broken land market to provide more sites for building at reasonable prices;
- Making the house-building sector more diverse and resilient;
- Increasing investment in affordable housing;
- Devolving powers to growing towns and cities to enable more strategic local leadership.

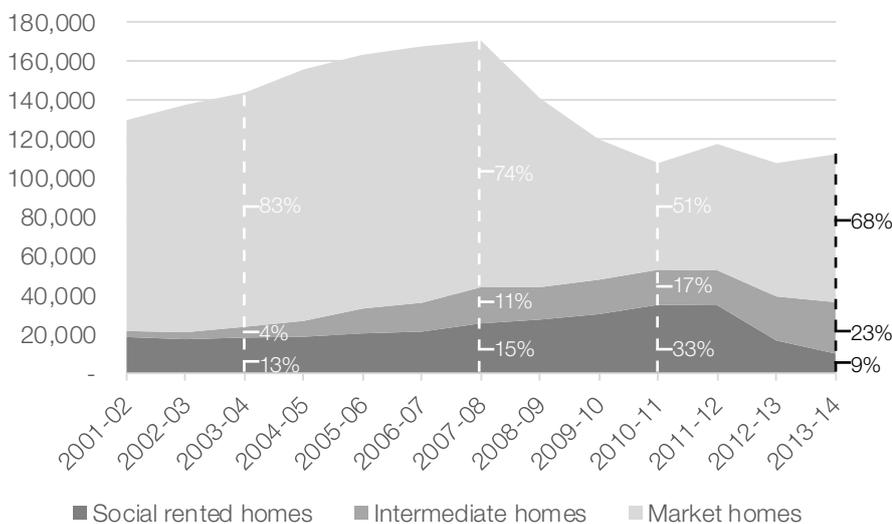
Together these changes would help to tackle England's housing shortage by building the number of homes that we need to stabilise house prices and bring down homelessness.

## We need growth across all housing types – market, intermediate and social rented

Although we need to significantly increase the total number of homes that we build in England every year, depending upon a particular tenure of housing alone will not solve the country's housing crisis. We also need to ensure that we build a diverse mix of housing tenures, including market, intermediate and social rented homes. This does not mean simply tinkering with the tenure mix of currently planned schemes. We need more of every type of housing if we are to solve England's housing crisis.

The primary reason for demanding diverse growth is that a balanced mix of tenures is essential to the core objective of increasing overall housing output.

**Graph 1: The change in the mix of housing output in England over time**



Source: DCLG Live Table 1009. Figures for newbuild included only; all remaining homes assumed to be market homes. Intermediate here includes all Affordable Rent properties in contrast to government definitions. The reason for this is discussed in detail in box 7 on page 15.

History shows that over-reliance on output of a single tenure limits the capacity within England's house-building system and undermines total new supply. Since the Second World War, no single tenure has achieved output of 250,000 homes a year, and periods when a single tenure has dominated supply have also been characterised by low levels of total output. This was

particularly true of the last peak in house building between the late nineties and financial crash in 2007/08. The over-reliance on output of market homes over that period meant that total housing output increased only marginally, from 130,000 in 2001/02 to 170,000 in 2007/08,<sup>6</sup> despite house prices more than doubling. Conventional economic wisdom suggests such strong price signals should have

5. *Building the homes we need: Our programme for the 2015 Government*, Shelter and KPMG

6. Over half of this increase was also accounted for by an increase in the delivery of intermediate and social rented homes, output of which grew from 21,740 in 2001/02 to 44,170 in 2007/08. All figures from DCLG Live Table 1009

driven market supply to increase to meet demand: the failure of private supply to respond sufficiently is indicative of the risks of over-reliance on one tenure.

By contrast, when output has been at its highest it has been mixed, rising to over 350,000 homes in 1966 when roughly 60% of homes delivered were private market homes and 40% were social rented homes.

This positive correlation between diversity and levels of output is predictable. Delivering a mix of different types of homes requires a plurality of different funding sources and delivery models, involving both the private and public sectors. Where market homes are principally delivered by private builders who have themselves borrowed private money to build, intermediate and social rented homes can also be delivered, for example, with government grant, local authority and housing association borrowing, through a housing investment bank or institutional investment. If one source of finance is under pressure, then another may be able to fill the gap.

Diversity of supply could also help make the housing system more productive over the long term by making it more resilient to fluctuations in house prices and less prone to cyclical shocks. Currently, developers must limit total market output in each location to avoid flooding the market and lowering prices. Building for multiple markets and sectors reduces these market absorption barriers to raising total supply.

Delivering mixed housing output therefore increases the housing supply system's overall ability to manage risk, and hence sustain higher levels of output over the long term, as well as increasing simple delivery capacity and short term output.<sup>7</sup>

However, a balanced tenure mix is not only necessary to ensure that total output reaches 250,000 homes a year sustainably. Delivering diverse output growth will bring benefits that could not be delivered by expanding output of one tenure alone without wide-ranging and currently inconceivable legislative reform.

### **Box 2: Why can't the market deliver all output growth benefits?**

The only widespread market option for those who are unable to afford to buy a home of their own is the private rented sector. While with sensible reform the private rented sector could successfully meet the needs of more people, it is unlikely that it will ever be able to do so for everyone who is not able to buy a home. In order to do so it would need to be considerably cheaper, with consistently high standards and much more secure. The reduction in rents required to make the private rented sector as affordable as a social rented home in many parts of the country could be more than 50%.<sup>8</sup> In order for conditions in the private sector to even match conditions in the social rented sector the proportion of private rented homes that fail to meet the Decent Homes Standard would need to more than halve. In order to have comparable stability with social rented and intermediate products the minimum security of a tenancy would need to be increased to at least five years (see box 7 on page 15), with most products offering indefinite security.

While there is an obvious need for reform in the private rented sector, and Shelter remains committed to improving renting, it would be unwise to rely on such dramatic change in the private sector occurring soon.

## **We need more market homes**

The majority of the people in England live in a market home<sup>9</sup> and in any typical year the majority of new homes built are market homes. Even while there is a considerable need for new intermediate and social rented homes, a balanced mix of homes will include a majority of market homes.

### **Box 3: Owner-occupied or private rented: what are market homes?**

Market homes are mainly developed for owner-occupation. Very few have been built specifically for private rental, but homes developed for sale can be bought by buy-to-let investors and rented out privately. The proportion of new homes that are bought for owner occupation or to rent varies considerably across the country. In London, the number of new homes that are bought by buy-to-let landlords is estimated to be as much 48%, while in other parts of the country the proportion is much lower.<sup>10</sup>

7. Promoting sites through the planning process, instigating and managing the design process, project managing the build-out etc.

8. Based upon the average rent figures for private and rented housing included in the 2012/13 English Housing Survey

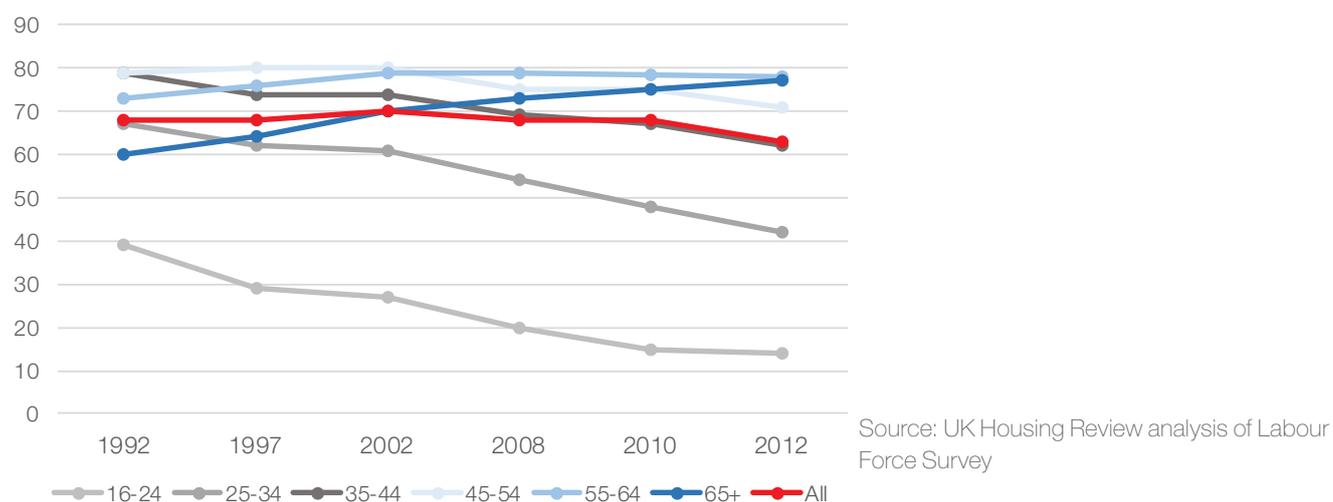
9. According to the English Housing Survey, over 80% of households live in market homes

10. *Who buys new homes in London?*, British Property Federation

## The preference for home ownership

The price of market homes has risen dramatically over recent decades – in part driven by under supply (although other factors including the availability of mortgage credit have also been important). Over the last decade or so, as homes have grown in price in real terms, the proportion of people who own a home has fallen. The proportion of owner-occupiers in England has dropped from its peak of 71% in 2003 to 65% of households in 2012/13,<sup>11</sup> the lowest level since the 1980s. This drop is in marked contrast to the preceding century, which showed almost uninterrupted growth in both the number and proportion of owner occupiers. The sharpest fall has been among younger people, suggesting that the downward trend is set to continue.

**Graph 2: Home ownership rates by age group (%)**



While the trend is currently towards fewer owner-occupiers, people in England have a clear and resilient preference for home ownership. If offered a free choice, 85% of people in the UK would prefer to own their home rather than rent,<sup>12</sup> and people from across different tenures would prefer to buy. The Shelter report *Homes for forgotten families* (2013)<sup>13</sup> showed that there are strong reasons underpinning this preference for home ownership:

- Owners feel they have greater stability and control over their home
- Owners are more likely to be satisfied with their housing<sup>14</sup> and increased stability means that they are more likely to play a part in their community by voting, for example
- Renters resent paying ‘dead money’ to landlords and private renters pay most in housing costs
- Building up an asset makes sense for later life – providing close to zero housing costs when incomes drop due to retirement

The proportion of people who would prefer to own rather than rent has remained stable over time, dictating the policy context for successive British governments. It is

likely to continue to do so for the next government. While an argument can be made that this preference should be challenged or changed, there appears to be little appetite among policy makers to do so. This is reflected in the 2010 government’s primary responses<sup>15</sup> to persistently unaffordable housing costs – which have focused on trying to help people into home ownership – and in the media coverage of the housing shortage, which has largely focussed on barriers to ownership.

The preference for home ownership means that:

- where households are able to access credit, demand for housing is likely to remain focussed on market stock. Even were the output of intermediate homes and social rented homes to dramatically increase, competition for market homes would remain high. As such, substantial new market supply will be needed to meet demand
- political legitimacy for the measures required to dramatically increase national housing supply is likely to depend upon the majority of new homes offering a route to some form of ownership.

11. Live Table FT1101, DCLG

12. Generations 2013, Ipsos MORI

13. *Homes for forgotten families*, Shelter

14. English Housing Survey 2012-13, DCLG

15. NewBuy, both parts of the Help to Buy scheme and the extension of Right to Buy

### More competition in the private rented sector

Despite the preference for home ownership, as more people have been priced out of buying, the number who live in the private rented sector has grown dramatically. Over 9 million people now live in privately rented accommodation. A shortage of supply tips the power in the marketplace in favour of landlords, putting upward pressure on rents, reducing incentives to make improvements to property or to retain tenants. This is reflected by the fact that conditions in the private rented sector are the worst of all tenure types<sup>16</sup> despite it being the most expensive sector, even after repairs and maintenance costs are taken into account.<sup>17</sup> Loss of a private rented home is now the leading cause of homelessness.<sup>18</sup>

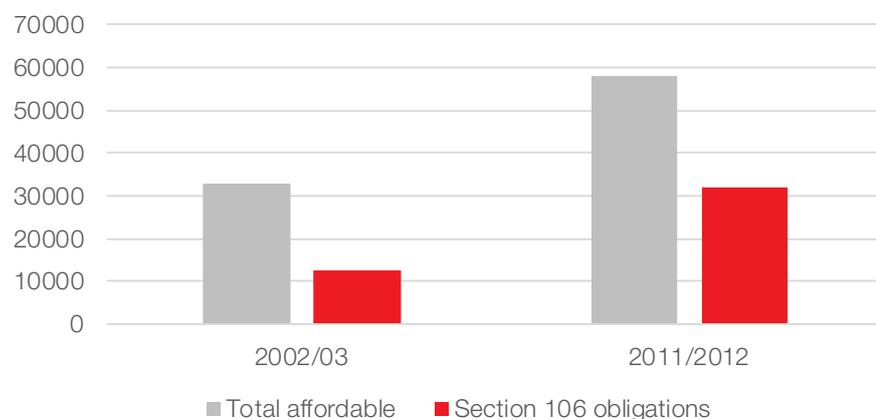
Increasing the supply of new market homes could help to relieve demand pressure for private rented housing by allowing some people who are currently renting to move into owner occupation. However, given the high rates of purchase of homes for let (particularly in areas of high demand, such as London) it is reasonable to assume that not all new homes will be bought by owner occupiers, and that as national output rises the supply of new private rented homes will grow too. This growth in supply of private rented homes, combined with the relief in pressure

on demand (as people move into owner occupation), should increase the market power of renters relative to landlords. While stronger legal protection for renters is also needed, this rebalancing of relative market power should lead to downward pressure on rents and upward pressure on standards and conditions as landlords compete more for tenants.

### Contribution to affordable and intermediate supply

Over the last two decades the delivery of new affordable and intermediate homes has become increasingly reliant on the planning obligations associated with private development. The Barker Review estimated that roughly a third of the 33,000 affordable homes delivered in 2002/03<sup>19</sup> were delivered as part of a Section 106 agreement or other planning obligation (see box 4). In more recent years, declining levels of public subsidy since 2010 has further increased the importance of Section 106 obligations as a source of new affordable and intermediate housing. A government study in 2011/12<sup>20</sup> found that the number of affordable homes delivered at least in part through Section 106 had increased to more than half of the total affordable homes delivered that year.<sup>21</sup>

**Graph 3: The number of affordable homes built through Section 106**



Sources: Barker Review, DCLG Live Table 1009, DCLG's Section 106 Planning Obligations in England 2011/12.

While there is a legitimate debate about how best to capture the uplift in value created by planning decisions, without a market-housing led increase in supply the amount of subsidy required to deliver the number of new

affordable homes that England needs every year would increase significantly.

16. English Housing Survey: Housing stock report 2009, 2011, DCLG

17. Buying vs Renting Review 2012, Halifax

18. Live Table 774, DCLG

19. This number also includes acquisitions and homes brought into use through refurbishment. Including only newbuild the figure is 21,100

20. Section 106 Planning Obligations in England 2011-12, DCLG

21. DCLG Live Table 1009 states that 58,100 affordable homes (52,830 newbuild) were built in 2011/12. DCLG estimates that between 31082 and 32753 affordable homes were delivered through Section 106 agreements in 2011/12, excluding those that may have been delivered through direct payments. This finding was also mirrored in the ODPM's Housing Strategy Statistical Appendix (HSSA), referenced in Joseph Rowntree Foundation's 2006 report Delivering Affordable Housing through Section 106

#### **Box 4: Section 106 - how does market development contribute to the delivery of new affordable and intermediate homes?**

Put simply, all development over a particular size requires planning permission from a local authority. If development takes place illegally the authority can require that it is demolished.

Section 106 of the (amended) Town and Country Planning Act 1990 gave local planning authorities the power to require specific planning obligations as part of granting a planning permission for development. Those planning obligations can:

1. restrict the development or use of the land in any specified way
2. require specified operations or activities to be carried out in, on, under or over the land
3. require the land to be used in any specified way; or
4. require a sum or sums to be paid to the authority on a specified date or periodically

Section 106 was intended to mitigate the site-specific impacts of developments, such as pressure on services, and to bring developments in line with planning policies. Therefore Section 106 planning obligations are used to pay for things like new school places where a new development will mean more families moving into the area, placing pressure on local schools. And they are also used to require the delivery of a proportion of affordable homes so that the development is in line with planning policy, which makes an assessment of local need for affordable housing and seeks to deliver mixed communities.

Where such planning obligations are imposed, developers are required to build (or pay for) a number of new affordable homes if they are to legally build new private housing. Most developers subsequently pass over ownership and management of the affordable homes to a housing association or other registered social landlord. Since 2010 the introduction of the Community Infrastructure Levy has started to replace Section 106 obligations for many contributions, but Section 106 remains the mechanism under which affordable housing obligations are agreed.

The overall result is that the delivery of market homes is now a major source of new affordable homes, and therefore mixed communities, via planning obligations.

### **We need more intermediate homes**

The 'housing ladder' is usually used to refer solely to a journey through owner occupation, from buying a starter home as a first-time buyer to eventually buying a larger family home. However, as ownership has become less affordable and the private rented sector has grown, this conception of a housing ladder is becoming relevant for fewer people. For an increasing number of people, the chance of owning a home at all, or of moving beyond the very first rung of the ladder, is out of reach. Research by YouGov for Shelter in October 2014 showed that 66% of private renters are unable to save anything towards a deposit for purchasing their own home.<sup>22</sup>

When the government wanted to extend the scope of home ownership in the 1980s, it introduced the Right to Buy for council tenants. Almost a million people exercised their right to buy their council home in the first ten years of the scheme. But today the Right to Buy is far less significant as a route from social rented housing to ownership. For a start, spiralling house prices have pushed the possibility of owner occupation out of reach for most council tenants, even with the larger discounts

offered since 2010. As councils' allocations policies rightly prioritise those in most need, the growing shortage of social homes means that the tenant population is less and less likely to be earning enough to exercise the right to buy. And as the better council stock has proved more popular to buy, over time the attractiveness of the remaining stock to potential Right to Buy purchasers has declined. Finally, there are simply fewer council homes to sell, due in large part to lost council units not being replaced.<sup>23</sup> For all these reasons, the Right to Buy cannot provide a route to ownership for as many people as it once did.

The net result is that fewer people can cross the widening financial gap between renting (whether in the private or social sectors) and market homeownership in one leap: if ownership is to be extended to more people a substantial increase in the intermediate options for people who can't afford to buy a suitable home is needed.

22. *England's 'rent-trap': just another reason housing is now a top 5 issue for voters*, Shelter

23. 970,558 people bought their council home through Right to Buy 1980/81-1989/90. Data taken from DCLG Live Table 671

### Box 5: What is intermediate housing?

Intermediate homes cover a range of different housing products for people on middle incomes. They may help those who have been shut out of home ownership by high prices or the need for a large deposit to buy equity in a home; or they may help those in work who are struggling with high rents, but are unlikely to be allocated social rented housing.

#### Shared ownership

Shared ownership homes are part-rented and part-owned by the occupier. The occupier buys a share of the home (typically between 25% and 75%) and pays rent on the remaining share. The share is normally purchased, with a mortgage, from a housing association. Rents are set as a percentage of the full value of the property at first purchase (around 3%), and reduced proportionally in line with the size of the share that the occupier purchases. The occupier can increase the share of the property that they own and reduce their rent further by buying more of the home in a process known as 'staircasing'. When the occupier has bought 100% of the property they become the full owner and are no longer liable for rent (although leaseholder service charges may still apply).

#### Shared equity

The government has established a number of shared equity loan schemes, including the Help to Buy equity loan scheme. In a shared equity scheme another party, normally the government, will buy a stake in your home (usually of up to 20%). Unlike in shared ownership the minority owner does not play an active role as landlord. Instead they are simply entitled to the proportion of the property's value at point of sale or after a fixed period of time. They may also charge a fee or interest on the loan. As their ownership is of a proportional share, its value will go up or down with the market.

#### Intermediate rent

Intermediate rent homes are rented by the occupier at a level set below the market rate (typically 80% of the amount that a private renter would expect to pay for a similar property in the same area). The property is normally rented on the same kind of short-term contract as private sector lets, an assured shorthold tenancy. These homes are also sometimes branded as rent-to-buy, but this description only reflects the amount providers assume residents will be able to save for a deposit.

#### Affordable Rent to Buy

A new pot of funding for 'Affordable Rent to Buy' homes was announced by the government in May 2014.<sup>24</sup> Although still being developed at the time of publication, the working paper suggested that homes let out under Affordable Rent to Buy would be rented at 80% of market rents for a period of at least five years after being built. After this time the landlord would have the option of selling the home at market values and the sitting tenant would have the opportunity to be the buyer.

#### Affordable Rent

Although a new tenure introduced in the government's 2001-15 Affordable Housing Programme, Affordable Rent homes are now the main form of government-funded housing supply. In the same way as intermediate rent homes, the rents can be up to 80% of local market rates. The property is normally rented from a housing association and allocated directly by them or via the local council's allocation scheme, and offered on a more secure tenancy than can usually be accessed in the market – typically five years. Although the government has legally classified Affordable Rent as a form of social housing, Shelter considers Affordable Rent to be an intermediate product rather than a social rented product. See the box on page 15.

### A generation of people shut out of home ownership

Even with a considerable growth in the number of market homes, house prices will not stabilise immediately and even if price stability is achieved, ownership will still remain out of reach for many who expect to be able to buy. Research by Shelter has found that at existing prices much of the country's housing is already unaffordable to buy.<sup>25</sup> For example, in 59% of the country less than 1 in 10 homes are affordable for a working couple on average incomes, with children. Across England only 17.9% of two bed homes are affordable for an average local working couple with children.

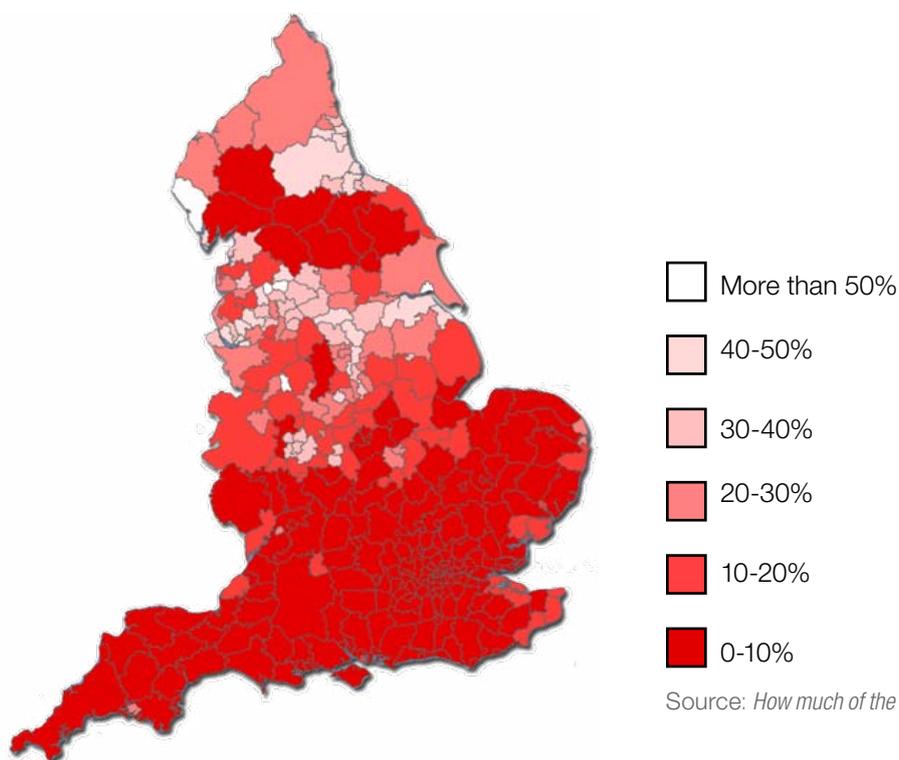
Many of those families that are not able to enter home ownership are trapped in the insecure private rented sector, and spending large proportions of their income on rent. The number of lower and middle income families living in the private rented sector doubled in the decade to 2011<sup>26</sup> and, without focused intervention, this trend looks set to continue. We know from polling that families would prefer to own their own home and that – as the most expensive and least secure tenure with the worst conditions – the private rented sector is currently least suited to their needs.

24. *Affordable Rent to Buy Working Paper*, DCLG, May 2014

25. *How Much of the Housing Market is Affordable?*, Shelter

26. Census data, quoted in *Homes for forgotten families*, Shelter

**Figure 1: The proportion of family homes that would be affordable to a middle income family**



Source: *How much of the housing market is affordable?* Shelter 2014

Despite the government's focus on access to mortgage credit, the unaffordability of ownership in England is not chiefly caused by lack of access to a deposit nor by over-cautious lending, but by the disparity between the high price of homes and average incomes. As such, Shelter believes that the answer to helping families priced out of home ownership is not extending high loan-to-value mortgages or increasing the amount that households can borrow compared to their income. This approach risks overly stretched budgets, future repossessions and macroeconomic instability.<sup>27</sup>

In the long run, stabilising house prices so that incomes can catch up would enable more families to buy their first home and to move up the housing ladder. But to meet the needs of those priced out now we need more affordable, intermediate homeownership solutions. Intermediate products such as shared ownership are intended to offer the benefits of ownership to families who might otherwise face a lifetime of unsuitable private renting, at a more affordable price. While Shelter believes that intermediate products can and should be improved (particularly in the light of further recent house price growth – see box 6 on

page 14) this core objective of the intermediate sector remains vital.

### **In-work housing benefit claimants**

The shortage and high cost of housing relative to average incomes has driven more working people onto housing benefit. In the last five years the number of people in work and on housing benefit has doubled, and it is rising steadily every year even while the number of other claimants has stabilised. One in five of all housing benefit claimants (including pensioners) are now in employment: in London the proportion is 31%.<sup>28</sup>

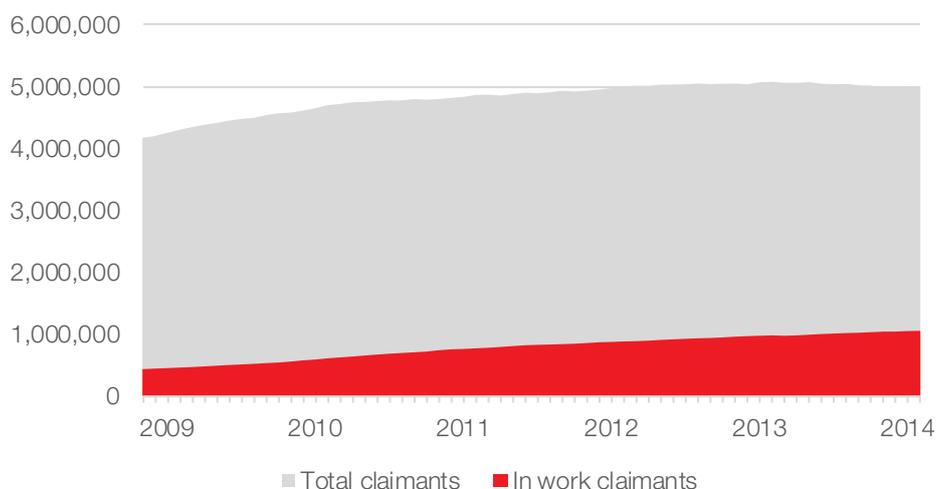
The growth of in-work claimants of housing benefit both places greater pressure on the welfare bill and is detrimental for claimants themselves, creating benefit traps and cliff-edges, and putting them at greater risk of eviction.<sup>29</sup>

27. See *House of Debt*, Atif Mian and Amir Sufi

28. DWP, Stat-Xplore

29. These risks arise both from the risk of falling into rent arrears due to administrative delays in providing benefits and of landlords exercising a preference not to let to benefit claimants. Administrative delays in providing housing benefit are highlighted as a concern by landlords in the University of York's report *Buy-to-let Mortgage Arrears: understanding the factors that influence landlords' mortgage debt*. Furthermore, landlords are able to not offer lets to people on housing benefit. Former Housing Minister Kris Hopkins in a Panorama aired by the BBC on 23 June 2014 said that it was 'perfectly legitimate' for landlords to evict tenants that claimed housing benefit, including those in work

**Graph 4: The growth in in-work housing benefit claimants since late 2008**



In some cases the mismatch between wages and housing costs may mean that only a social rented home will be genuinely affordable to working households. But for many working people intermediate housing could be affordable and provide a preferable alternative to housing benefit in the private rented sector, offering long-term affordability, stability and fewer disincentives to working more hours or increasing earnings.<sup>30</sup>

### Box 6: New opportunities to extend the housing ladder through intermediate homes

A dramatic expansion in the current output of affordable homes should coincide with serious consideration of how intermediate housing can be improved. Shelter has in recent years been investigating how existing products could be extended or new ones developed to achieve this.

#### Smaller minimum shares

The minimum share that shared owners can currently buy is typically not lower than 25% and for many homes the minimum required share is well over that, pushing shared ownership out of reach for many people on middle and lower incomes. Shelter has shown how reducing the minimum share for shared ownership homes to 12% could make shared ownership affordable for even lower income families in 80% of the country.<sup>31</sup> However, income volatility for those on lower incomes remains a barrier to accessing a mortgage and sustaining shared ownership.

#### Rent-to-buy

The growth in the number of private renters in England requires specific new policy solutions to help

people in private renting access the benefits of home ownership. For those on volatile incomes, one would be a housing product that allowed renters to build up equity in an intermediate home only when they could afford it. Such products can also remove the need for mortgage debt.

Public support for a new intermediate rent-to-buy product of this type is significant. In a poll of over 4,000 people for Shelter by Populus, 75% of people said they supported the idea of building new quality homes 'where every rent payment goes towards owning the house'.<sup>32</sup> Critically, the poll also showed that people would support new rent-to-buy homes being built in their area, with 86% of people who thought that it would be the best option for young people supporting new rent-to-buy homes being built in their area.

Housing association Gentoo have developed a product called Genie along these lines: over a period of 30 years the occupier builds up shares in the product until they own 100%. While Genie is a full, market product, it has demonstrated proof of concept, supporting the case for the development of a flexible intermediate rent-to-buy product.

30. A full discussion of the disincentives to working more hours or increasing earnings implicit in the benefit system is included in the section on welfare dependency on page 18

31. *Homes for Forgotten Families*, Shelter

32. Conducted by online poll with 4,106 adults between 16 and 22 May 2014

## We need more social rented homes

England has not only been building too few homes, it has for decades built too few social rented homes. The case for an increase in output is compelling. The number of people who need a social rented home is growing: previous Shelter research found that the backlog of

unmet need for social sector homes in 2008 was over 500,000 households,<sup>33</sup> while the number of households in temporary accommodation waiting for a home stands at almost 60,000. This year, over 90,000 homeless children will spend Christmas in temporary accommodation.<sup>34</sup>

### Box 7: What are social rented homes?

Social rented homes can provide secure housing with genuinely affordable rents, set at a level with a link to local incomes, and allocated on the basis of need. They are also let by regulated and professional landlords, who are far more accountable than the average private landlord.

#### Secure

Social rented homes provide greater security of tenure than is available in the private rented sector without requiring the occupier to buy any equity. The shortest legal contract in the private rented sector is six months and outside of the contract renters can be easily evicted. Even since the recent introduction by government of introductory and 'flexible tenancies' (which, at typically five years, are still substantially more secure than most private rented tenancies), most social rented homes are let on permanent tenancies.

#### Affordable low rents, determined with reference to local incomes

Rents in social rented homes are typically 40-50% of market rents.<sup>35</sup> However, they are not only low in absolute terms but also take ability to pay into account by being based upon a combination of house prices and local earnings.

The link between rents and incomes in what is defined as affordable housing was broken with the publication of the National Planning Policy Framework in 2012<sup>36</sup> and further diluted by the new 'Affordable Rent' regime's sole link to market rents. Shelter objected to this change in definition as rents based solely on the market can be unaffordable if the market moves ahead of income inflation. For that reason we continue to consider a link to local incomes a vital part of the definition of a social home as it must remain affordable in relation to local incomes.

#### Allocated on the basis of need

Social rented homes typically provide homes for people most in need.

Councils currently have a considerable degree of flexibility to allocate social rented homes. However, the principle that those in the greatest need should be able to access social rented housing remains in the requirement to give reasonable preference to:

- people who are homeless
- people who are owed a duty by any housing authority or who are occupying accommodation secured by any housing authority
- people occupying insanitary or overcrowded housing or otherwise living in unsatisfactory housing conditions
- people who need to move on medical or welfare grounds, including grounds relating to a disability,
- people who need to move to a particular locality in the district of the housing authority, where failure to meet that need would cause hardship (to themselves or others).<sup>37</sup>

#### Affordable Rent homes do not fit within a reasonable definition of social rented homes

The introduction of the Affordable Rent housing investment model in 2011 further complicated the semantics of affordable housing. Affordable Rent ties the rents charged for most new, and some re-let, social housing to the local market (capped at 80% of local market rents) rather than to local incomes. Although 80% is the maximum that housing associations are able to charge, the rents being charged under the Affordable Rent model are generally significantly higher than social rents. Government information on lettings and sales for 2011/12 indicated that social landlords are charging

33. Holmans, A, Monk, S, and Whitehead, C, Homes for the Future – A new analysis of housing need and demand in England, Shelter, 2008, see [shelter.org.uk/policylibrary](http://shelter.org.uk/policylibrary)

34. Live Table 775, DCLG

35. The English Housing Survey shows that average rents in the social sector in 2012-13 were £89, compared to £163 in the private sector.

36. Planning Policy Statement 3 stated that affordable housing "should meet the needs of eligible households... at a cost low enough for them to afford, determined with regard to local incomes...". The NPPF simply states that "Eligibility is determined with regard to local incomes..." and does not state that affordable housing must meet the needs of eligible households.

37. Allocation of accommodation: guidance for local housing authorities in England, [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/5918/2171391.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/5918/2171391.pdf)

an average of 68% of market rents for properties let under the Affordable Rent scheme.<sup>38</sup> This level of rent is much higher than an average social rent, which is typically 40-50% of market rates.

Both the level of the rents being charged under Affordable Rent and its lack of a link to local incomes means that it does not fall within a reasonable definition of social rented housing. Instead, it should more properly be seen as an intermediate rent product, pegged to market rents.

It may be argued that Affordable Rent is genuinely affordable for households on low incomes when they are also in receipt of housing benefit (as the higher rents are borne by the state). Even discounting the arguments against long term use of housing benefit (see below), some Affordable Rent homes will be unaffordable even if tenants are in receipt of housing benefit. Although housing benefit for Affordable

Rent homes is not capped in the same way as in the private rented sector, it is still subject to benefit restrictions, namely the under-occupancy charge (commonly known as the 'Bedroom Tax') and the overall household benefit cap of £500 per week for a family. Research conducted in 2011<sup>39</sup> found that families with three or more children facing an Affordable Rent of up to 80% of market levels would breach the household benefit cap of £26,000 per year in four out of five local authority areas studied.<sup>40</sup>

Shelter's views on the 'intermediate' nature of Affordable Rent reflects the findings of the Communities and Local Government Select Committee's inquiry<sup>41</sup> that recommended government "recognise the need for housing available at both 'social' and 'affordable' rents, each with a separate allocation system."

### Efficiently increasing housing output

Without public investment in affordable housing, housing output in England will not reach the 250,000 homes a year that we need. Private house builders have only managed to achieve housing output levels above 200,000 a year twice since 1945 and even then failed to come close to 250,000.<sup>42</sup> Although private market house building was higher in the 1930s,<sup>43</sup> this was accompanied by significant urban sprawl (which today would be undesirable<sup>44</sup>) and predicated on low land values (which today are high).

Not only is the market unable to deliver the homes we need on its own, evidence suggests that there is no crowding out of private investment by public investment. Illustrating this, the highest levels of private sector completions have been achieved at times when public building and investment in new housing was also at its peak. In the two years that market house-building topped 200,000 in the last 70 years local authority house-building was also substantially above 100,000 units a year.<sup>45</sup>

Public investment in affordable housing supply can act counter-cyclically, to smooth the peaks and troughs of a volatile private market and prevent damaging capacity

loss in market downturns. It can also be increased relatively rapidly in response to increased housing need, development opportunities or wider economic factors – such as after the financial crisis of 2008.

As such, Capital Economics analysis found that 'an increased budget for central government capital grant is the most straightforward, practical and efficient method for stimulating building.'<sup>46</sup> They recommend increasing investment in affordable housing by £3.4 billion per year as fiscally sustainable and commensurate with the economic recovery to date. With other interventions Shelter believes that it may only be necessary to increase direct public investment by £1.22 billion<sup>47</sup> a year over the course of the next parliament, creating a budget still lower than pre-2010 levels.

### Avoiding reliance on the private rented sector to meet need

Increasingly, the shortage of social rented homes means that the private rented sector (paid for through housing benefit) is being used as an alternative to social housing. However, benefit claimants face barriers to finding a privately rented home. There are strict limits on the

38. Inside Housing, "Affordable homes rent averages 68% of market rate," 24 September 2012

39. CCHPR for Affinity Sutton (July 2011) Market pegged social rents and local income distributions.

40. Covering Hove, East Sussex, Bromley, Hertsmere, Hertfordshire and Mid Sussex – only Plymouth was deemed affordable for a larger family dependent on benefits.

41. DCLG Select Committee (May 2012) Financing of new housing supply

42. Live table 244, DCLG

43. Hitting almost 290,000 in 1934

44. The first green belt was introduced around London because the capital's urban area had increased at such a significant rate in the years before 1938.

45. Live table 244, DCLG

46. *Increasing Investment in affordable housing*, Capital Economics (2014)

47. *Building the homes we need*, Shelter and KPMG,

amount of benefit they can claim, which generally restrict them to the bottom third of the private rental market, where the worst landlords and worst conditions prevail. Single under-35s can only claim for the cost of a room in a shared house or flat, and few concessions are made for households requiring extra room, such as for medical reasons, as campaigners against the under-occupancy penalty (also known as the 'Bedroom Tax') have highlighted. Private renters also have to pay a tenancy deposit, rent in advance and often letting agent fees. Landlords are often reluctant to let to benefit claimants because of restrictions placed on their buy-to-let mortgages by lenders, and on their insurance contracts; the risk of arrears associated with benefit delays; and general discrimination about benefit claimants' suitability as tenants.

Furthermore, the private rented sector simply does not provide a suitable home for people most at risk of becoming homeless. Shelter and Crisis' longitudinal study *Sustain* showed that short-term private rentals lack the stability that people need in a settled home and frequently have poor landlords and conditions: every household included in the study had a problem with conditions, most had to deal with problem landlords and many suffered a harm to their wellbeing as a result of being placed in private rented accommodation.<sup>48</sup>

More social rented homes are needed for people who live in areas where market and intermediate housing costs are so high they are unaffordable to people on average or low incomes. Without this increase in social rented home building there is a further risk that employers will find

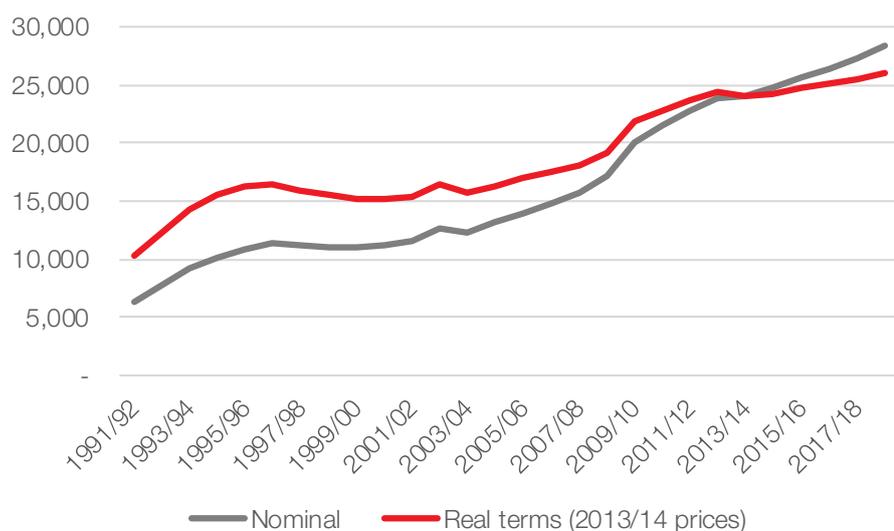
it increasingly difficult to recruit to low-waged positions or that worker productivity will be impacted.

### Sustainably bringing down the housing benefit bill

The ever-shrinking level of social rented house-building has driven up the housing benefit bill. As such, the "reforms required to reverse rising spending [on housing benefit]... lie outside the welfare system."<sup>49</sup> Without investing in new social rented housing, the housing benefit bill will continue to rise.

For the past 30 years, successive governments have switched funding from supply-side investment in new low-cost homes to subsidising high housing costs through the welfare system. Excluding the partial and temporary increase in the late 2000s, funding for social house-building has consistently declined while the housing benefit bill has ballooned, doubling in 20 years in real terms from £12 billion in 1992/93 to over £24 billion in 2012/13.<sup>50</sup> Although other factors can increase the benefit bill, such as the rise in unemployment caused by the 2007/08 recession, the shift from social to private rents remains the largest driver of the rise and the bill has continued to go up despite recent falls in unemployment. The combined effect of this increase and reductions in supply-side subsidy mean that central government now spends more than 20 times as much on housing benefit as on affordable house-building grants.

**Graph 5: The size of the housing benefit bill since the beginning of the 1990s (£ millions)**



Source: DWP, Benefit Caseload and Expenditure Caseload Tables 2013

48. *A Roof Over My Head: the final report of the Sustain project*, Shelter and Crisis

49. *Ticking the Box... for a welfare system that works*, Chartered Institute for Housing 2014

50. DWP Benefit expenditure and caseload tables 2013 and ONS (February 2013); Labour Market Statistics

While revenue subsidy can be useful as an insurance-style safety net, over-reliance of personalised housing subsidies can be unnecessarily costly in the long term because, for people who do not have a high enough income to afford their housing costs and are unlikely to increase their income, such as some pensioners and people with long-term health problems, they must be paid on an on-going basis. This contrasts with the costs of building social rented homes, where the initial investment is paid back through the rents over the long term, and eventually generates a surplus to finance future modernisation or further new development.

With the number of people living in expensive private rented homes rather than more affordable tenures rising, the pressure that housing benefit places on the public finances is forecast to grow. Concurrent with this growth,

the introduction of the cap on total welfare expenditure from 2015 will mean that future governments will be faced with the difficult choice of finding a way to reduce the housing benefit bill or limiting other welfare payments, such as Winter Fuel Payments.

Shelter has previously argued<sup>51</sup> that the shift from capital investment to revenue subsidy to keep housing affordable has gone too far. Increasing the level of supply-side investment to build more social rented homes will make a direct impact on the housing benefit bill and bring down welfare spending. Analysis by Shelter in 2010 suggested that if 8% of claimants in private rented housing moved to affordable social homes, the DWP would recover £200 million in savings. If 500,000 tenants, or 40% of claimants, were able to move across, savings could be as high as £1 billion.<sup>52</sup>

### **Box 8: What is the impact of Affordable Rent on the welfare bill**

The Affordable Rent model means the government pays less grant per home built than under previous schemes (around £20,000 compared with £60,000 under the previous National Affordable Housing Programme), while housing providers borrow more and can charge higher rents, pegged at up to 80% of market rates. As such, Affordable Rent switches support from capital investment to revenue subsidy for the supply of new homes, because if tenants cannot afford the higher rents, they can claim housing benefit to cover the cost.<sup>53</sup>

The full impact of the Affordable Rent policy on the housing benefit bill remains unknown as no full review of the financial impact of the model on the public accounts has yet been conducted. However, in 2012 both the National Audit Office and the Public Accounts Committee expressed concern that it would push up the benefit bill by an estimated £1.4 billion.<sup>54 55</sup> This directly contradicts the government's initial confidence that the policy would not contribute to an increased housing benefit bill.<sup>56</sup> Clearly, if the effect of Affordable Rent is to only move the cost of providing new homes for people in housing need from the Department for Communities and Local Government's budget to the Department for Work and Pensions, it will represent a false economy.

### **Reducing welfare dependency**

The shift of funding from building new affordable homes to welfare has not only increased the welfare bill, but also deepened disincentives to work.<sup>57</sup> Investment in social rented housing is therefore essential to reduce dependency on housing benefit and the disincentives to work in the welfare system.

The tapered structure of housing benefit disincentivises work by creating a poverty trap. Increasing hours of work or earnings may not make a benefit claimant significantly better off, because as a claimant's income from work

rises they lose benefits, meaning that they are not able to realise the full increase in their income. The 65% taper applied to housing benefit has been widely criticised for creating a very deep poverty trap. It means that low paid workers on housing benefit will only be £3.50 better off for every £10 extra they earn, before the loss of other benefits or work-related expenses are even taken into account. The interaction between housing benefit and other benefits (such as council tax benefit and tax credits) means that the amount that households lose when they increase their incomes can be even greater, as much as 95.5 pence in every pound.<sup>58</sup> While the negative effects

51. *Bricks or Benefits; how we can rebalance housing investment*, Shelter

52. Supplementary evidence from Shelter to the Work and Pensions Select Committee Inquiry into Housing Benefit reform, 2010.

53. Financial viability of the social housing sector: introducing the affordable homes programme, NAO

54. DCLG guidance states that "Where a tenant cannot afford to pay, the new Affordable Rents will be eligible for Housing Benefit and local authorities will be able to discharge their homelessness function through the new tenancy" - DCLG (November 2010) Local decisions - a fairer future for social housing

55. Financial viability of the social housing sector: introducing the affordable homes programme, NAO

56. See Grant Shapps' uncorrected oral evidence to the Communities and Local Government Select Committee on the 2010 Spending Review, 21 December 2010

57. See *Brick or Benefits* for a full discussion

58. HM Government, State of the Nation Report: Poverty, worklessness and welfare dependency in the UK, 2010.

of the interaction of benefits on work incentives will be diluted with the introduction of Universal Credit, the 65% taper on housing benefit will remain.

High private rents and the growing number of claimants in the private rented sector have extended the income range over which housing benefit is being claimed. This means that more people face the work disincentive, and that the amount of rent covered by housing benefit (and thus the size of the poverty trap) is greater. In the same way the switch to the Affordable Rent model has also increased the size of the benefit trap for those allocated such housing by their local council.

Conversely, households living in social rented housing on lower rents do not face such a severe poverty trap. Where rents are lower, the number of people on low incomes who require housing benefit to cover their rents is also lower. Where tenants do require housing benefit, the work disincentive is shallower because the amount of benefit paid is smaller. Increasing the supply of low rent social housing is therefore an effective means of reducing welfare dependency and benefit traps.

# The balance of output we need

Shelter believes that a sensible balance of new housing output is 50% market homes, 20% intermediate homes and 30% social rented homes.<sup>59</sup> In the context of increasing annual total output to 250,000 homes,<sup>60</sup> this mix would deliver 125,000 market homes, 50,000 intermediate and 75,000 social rented homes by 2021.

This recommendation of a 50/20/30 balance of output is based on the levels of need identified by Holmans in 2011<sup>61</sup> (see table 3). Shelter's recommendation for output includes slightly smaller proportions of social rented homes than the level of 'social sector need' Holmans identified. This is because the Holmans study assumes that some 'social sector need' can be satisfied without social rented homes and does not include an assessment of the need for intermediate housing.<sup>62</sup> While we have therefore assumed a very small amount of social sector need will be met in the private rented sector, we believe almost all should be met through social rented homes. The policy benefits of expanding social rented housing output (cutting the housing benefit bill, reducing welfare dependency, increasing total output) will not be achieved if social sector need is satisfied largely through the private rented sector.

**Table 3: Holmans 2011 study and Shelter's recommended balance of housing output**

Tenure	Annual average output	Proportion of total
<b>Holmans, 2011</b>		
Market	165,000	68%
Intermediate	-	-
Social sector	78,000	32%
Total	243,000	100%
<b>Shelter's proposed balance of housing output</b>		
Market homes	125,000	50%
Intermediate homes	50,000	20%
Social rented	75,000	30%
Total	250,000	100%
<b>Levels of output in 2013-14</b>		
Market	75,850	67.5%
Intermediate	26,340	23.4%
Social rented	10,180	9.1%
Total	112,370	100%

Although this is a contextualised assessment, given extensive delivery lead-in times and the need for policy consistency to achieve the substantial challenge of doubling total supply, Shelter recommends only periodic or exceptional review of the proposed balance of output growth.

## How the needed mix differs from the current mix

The good news is that the mix of homes that the country needs as we expand national housing output has been delivered very recently in England. The balance of new homes built in 2010/11 was broadly in line with the mix of growth we need.<sup>63</sup> So the task for government is to expand output of all types of housing dramatically, in line with recent historical output.

However, when the balance of output achieved in 2010/11 is considered in its historical context and in the context of current policy, it's clear that such growth in housing types will not be achieved without significant policy change.

This is because we did not arrive at the reasonably balanced mix of homes delivered in 2010/11 by intention but by calamity.<sup>64</sup> The mix achieved then was in large part an unintended by-product of the collapse of private house building after 2007, which saw market output drop to historically low levels, from a peak of over 130,000 to just 55,000. While nominal output of sub-market housing did increase in every year from 2007/08 to 2011/12, by 2012/13 it had dropped back below 2007/08 levels. Before the collapse in market output, at the previous total output peak in in 2006/07, 78% of homes built were market homes. Social rented and intermediate homes accounted for only 13% and 9% respectively.

The historical context of the 2010/11 balance of housing output, then, is that it was achieved accidentally through a marked contraction in total output. Given the need for growth in all types of housing, not a rebalancing of existing output, this outcome was completely undesirable.

The broader historical context further illustrates the scale of the policy changes required to increase output to 125,000 market, 50,000 intermediate and 75,000 social rent homes. Market supply has only got to 125,000 five times since 1991 (and both the early nineties and mid 2000s peaks immediately preceded a collapse in market building). Output of social rented homes has not even approached 75,000 since the early eighties<sup>65</sup> and England has never built 50,000 intermediate homes in a single year. Clearly a balanced and sustainable growth in output

58. HM Government, State of the Nation Report: Poverty, worklessness and welfare dependency in the UK, 2010.

59. A fuller discussion of the definitions of market, intermediate and social rented homes that are used throughout this briefing are included at the beginning of each relevant section below

60. This is the projected impact of the recommendations in Shelter and KPMG's programme for the next government.

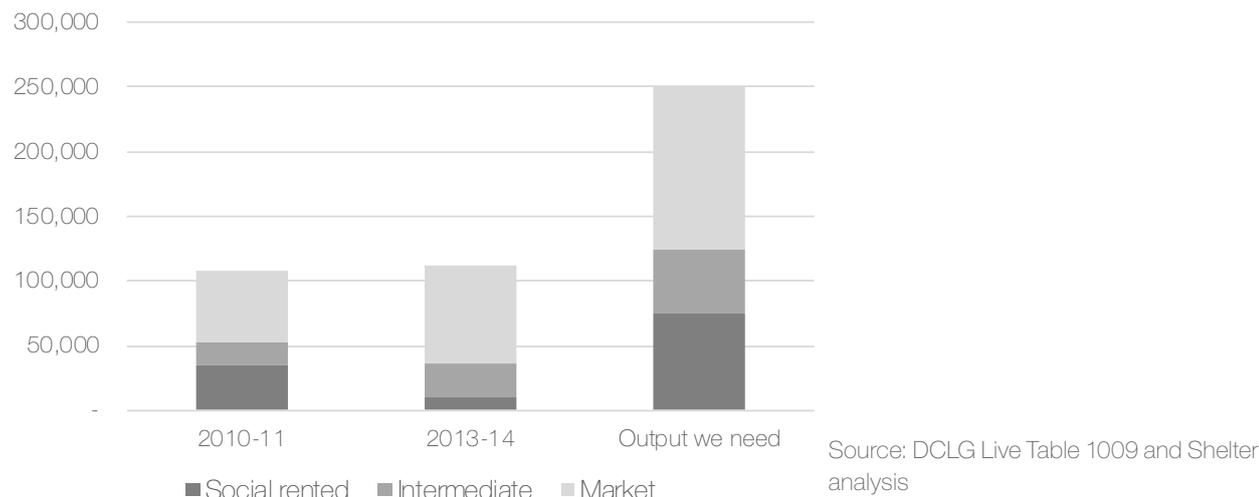
61. Holmans, New estimates of housing demand and need in England, 2011 to 2031.

62. Instead he suggests social sector need can be satisfied in the private rented sector with housing benefit

63. In 2010/11 50.7% of new homes were market homes, 16.6% intermediate homes and 32.6% social rented homes, using Shelter's definitions

64. See Graph 1 on page 7.

**Graph 6: The balance of output growth needed, compared to current and recent output**



will not be achieved by relying on long-established policy norms and assumptions.

The current policy context, which shapes recent and future output, should also temper any optimism that the balanced mix achieved in 2010/11 might inspire. The combined effect of policy and spending decisions taken in recent years has seriously limited the housing system's capacity to deliver sub-market housing and have particularly undermined its capacity to sustain the delivery of social rented homes, let alone increase it.

**Cuts to grant for sub-market homes –**

Government funding for new sub-market homes – both intermediate and social rented – was cut by 60% as part of the Comprehensive Spending Review in 2010 and has since been reduced even further.<sup>65</sup> Although levels of completions of sub-market homes were sustained in 2010/11 and 2011/12 due to the time lapse between allocation of grant, building start and completion, the impact on completions of the spending cut is now being felt.

**The Affordable Rent regime –** Gives a presumed priority to intermediate Affordable Rent homes, with rents of up to 80% market rent, over social rented homes in accessing government grant for new build. Funding for new social rented homes is, under the current programme, only to be considered in 'exceptional circumstances'. This has led to a redistribution of funding within the sub-market bracket from new social rented housing to intermediate homes.

**Viability of planning obligations –** The National Planning Policy Framework created a new requirement that Section 106 planning obligations for affordable housing must be set at a level that is viable, providing a 'competitive return' to both land owner and developer. The Growth and Infrastructure Act 2013 strengthened developers' rights to appeal planning obligations that they believe make developments unviable. Over time these changes, requiring affordable housing contributions only where they are viable, are likely to become self-fulfilling, making affordable housing contributions increasingly unviable. This is because passing the full cost of providing affordable housing onto the land price paid depends upon certainty that the obligations will be enforced. If there is doubt that obligations for affordable housing will be pursued this is likely to be reflected in higher market land prices that will – in turn – make provision of affordable homes unviable.<sup>67</sup>

These policy decisions have contributed to a reduction of more than two thirds in the output of social rented homes in just two years, from 35,180 in 2011/12 to 10,180 in 2013/14. This reduction is projected to continue.<sup>68</sup>

65. The last time the number of social rented homes built in any year exceeded 75,000 was 1980 when over 90,000 were built

66. The 2010 Comprehensive Spending Review made a 60% cut to housing capital investment. Although a £2.9 billion extension to the Affordable Homes Programme was allocated for the 2015/16 to 2017/18 CSR period this still represents a cut from the 2011 – 2015 CSR. HCA National Affordable Housing Programme and Affordable Homes Programme

67. Shelter submission to the Growth and Infrastructure Bill Committee, December 2012

68. In July 2014 Newsnight revealed a government briefing that suggested housing starts would drop in 2013/14 due to a drop in affordable house-building

## National government must commit to balanced output growth

To secure the benefits of market, intermediate and social rented homes, government should commit to output growth that is balanced across housing tenures and types. Shelter has already argued that the 2015 government should on its first day in office make a commitment to increasing total housing output to a minimum of 250,000.<sup>69</sup> A commitment that this level of total output will be made up of 125,000 market, 50,000 intermediate and 75,000 social rented homes and achieved through balanced growth should be made at the same time.

### Implementation

The government commitment to balanced growth should be implemented by:

- introducing the policy changes needed to deliver it
- monitoring achieved output levels of different housing types
- responding to output shortfalls with further policy actions

Shelter has already published a full series of policy recommendations that will deliver balanced output

growth in our joint report with KPMG, *Building the homes we need*. The primary impact on each housing type of each of the policies in that report is set out in table 1. These are only primary impacts due to the aforementioned reciprocity between different types of housing output (the contribution that market housing makes to sub-market and vice versa). In order to deliver its commitment to balanced housing output growth government should – in the first instance – implement these policy changes.

**Table 1: The primary output impact of policies proposed by Shelter and KPMG**

Primary output impact	Policy change
Market homes	Supporting SME house builders through access to finance and making an explicit government commitment to deliver stable house prices
	Incentivising stalled development sites
	Opening up the land market with more transparency and data
	Levelling the playing field for developers with national space standards for new build homes
	Providing affordable land for custom builders
Intermediate and social rented homes	Boosting public and private investment in affordable housing
	Setting up a National Housing Investment Bank to deliver cheaper funding for affordable housing development
	Raising borrowing caps on local authority building so that councils can build new social rented homes
Across all housing types	Launching a new generation of garden cities
	Giving councils the power to assemble land for new development through New Home Zones
	Integrating major new infrastructure with the delivery of new homes
	Increasing flexibility for councils to make green belt swaps
	Putting housing at the heart of City Deals to give new power to councils that deliver new homes and assessing housing need and demand across authority boundaries

In order to ensure that these policies have their intended impact, government should monitor housing output across the different housing types to ensure that growth is being achieved in a balanced way. Statistics on the level of social rented and intermediate housing output are

currently published by government annually in Live Table 1009. This should be updated to include output of market homes and that output be reported on a quarterly basis so that government is able to respond to any imbalances in growth that arise in good time.

69. *Building the homes we need*

It is quite possible that such imbalances will arise. For example, where government has the most direct influence over the delivery of new homes – such as those funded by government grant or development on public land – we might reasonably expect growth to be achieved more quickly than where the government’s influence is less direct, and where other external factors may be more influential. Where imbalances in growth do occur, government should respond by taking further action to stimulate underperforming areas of housing output, explain what action will be taken and estimate when output will be returned to balanced growth.

Action to stimulate output might include:

- reviewing the financial context for delivery of intermediate and social rented housing, providing grant funding and determining council borrowing limits for building
- reviewing elements of the legislative and regulatory planning framework for new development such as the definition of viability for new developments
- reviewing support for small builders or housing associations
- releasing more public and private land at low cost to support strategic development
- providing or accelerating infrastructure that can support new homes
- delivering further garden cities or incentivising the use of New Home Zones
- taking further positive action to support local authorities that are working to deliver considerable output growth, and/or censuring those that are not responding adequately to local need.

Some policy action – such as changing the definition of viability for new developments to strengthen local authorities’ ability to negotiate higher sub-market housing provision – may have an impact on the amount of another type of housing output (in this example, on market housing). As the aim of government policy should be growth across all housing types, not rebalancing within existing housing output, Shelter recommends that when such policy actions are pursued mitigating action is also taken to ensure that growth is still achieved in the adversely affected type of housing output. To be clear, the commitment to a balanced tenure mix must be achieved by raising the output of underperforming tenures, not by lowering the absolute numbers of any one tenure being built nationally.

## Accountability

If the 2015 government is to implement a commitment to balanced output growth it will require a strong voice in the heart of government whose political career will be ‘made or marred’<sup>70</sup> by its delivery. Without this, the priority of balanced growth is likely to be overtaken by other governmental priorities or tensions between departments. Delivering a balanced mix will require cross-departmental co-operation and effort so it will require a strong co-ordinating voice able to:

- negotiate robust capital settlements with the Treasury in a climate of continuing austerity
- coordinate the delivery of new homes with major infrastructural spending with the Treasury, Transport and other departments
- establish a new housing investment bank and channel financial support to SME builders.
- act in partnership with the Department for Work and Pensions to argue for investment in new intermediate and social rented homes to save on the housing benefit bill
- work with departments and agencies with large holdings of public land (Ministry of Defence, NHS, etc.) to release land for development for homes
- empower and incentivise local councils to deliver the homes England needs.

The most effective way of ensuring that such a voice exists at the centre of government is to elevate the position of housing minister to a full cabinet post with explicit accountability for delivering balanced output growth. Only by doing this will the housing minister be able to speak on an equal footing with their cabinet colleagues and with a full interest in achieving balanced growth.

The housing minister is currently a junior minister that does not attend cabinet. Although it would be overly simplistic to draw a direct relationship between the housing minister’s status the levels of housing output achieved from 1951 to 1969, it cannot be entirely coincidental that during those years the housing minister was a full cabinet post.

But the imperative for elevating the housing minister to a cabinet position is not only a question of symbolism or rank. As a junior ministerial role the position of housing minister has become a merry-go-round of politicians at the beginning or end of their career. During the 18 years that the housing minister was a cabinet position, only eight people held the post (including Harold MacMillan, Sir Keith Joseph and Richard Crossman). Only one<sup>71</sup> served less than a year. By contrast, of the eight ministers

70. When Winston Churchill gave Harold MacMillan the new cabinet position of Minister for Housing and Local Government in 1951 he said that delivering the government’s commitment to build 300,000 homes a year would “make or mar your political career.” Macmillan: the Official Biography, Alistair Horne.

71. Charles Hill who lost his position in Harold MacMillan’s ‘Night of the Long Knives’

who have held the housing portfolio in the last 10 years, only three – Keith Hill, Yvette Cooper and Grant Shapps – have held the post for more than a year. Housing supply has long lag times, making it a very unattractive brief for aspiring ministers who only expect to be in post a short time.

Ensuring that balanced output growth is achieved will require ongoing, sustained ministerial action, including responsive renegotiation and cooperation with other departments. This will be damaged by high ministerial turnover. While elevating the post to cabinet level does not guarantee that turnover within the post will decrease, lower levels of turnover in cabinet level positions is an observable fact.

## Local government must respond to local need and demand

A national commitment to a diverse mix of housing would not mean targets imposed on all local areas from the centre. Nor would it mean that every single development must be made up of the same mix of homes. Different local areas need different mixes of new homes depending on their local context (including the existing tenure mix in the surrounding area, local affordability ratios, the backlog of need, etc.). Some areas will need more than 50% market housing as output increases, while others will require more than 20% intermediate or 30% social rented.

In Oxford and Cambridge, for example, the need for affordable homes is so great that the assessments for both councils show a need for new social rented and intermediate homes that is higher than the total number of new homes needed to accommodate population growth.<sup>72</sup> In London, the estimated proportion of social rented homes needed ranges from 32%-37%, depending on whether the backlog of existing need for more affordable housing is cleared over 20 or 10 years (with a corresponding impact on total housing output; see table 3).<sup>73</sup>

If these cities were to build only 30% social rented and intermediate homes, the result would be insufficient sub-market housing to meet existing and arising need. Likewise, Shelter’s bid for the 2014 Wolfson Economics Prize included 62.5% market homes as part of the new Stoke Harbour garden settlement as there is a proportionally higher need for new market homes in that area. Applying the national mix target across the board locally would therefore be undesirable.

## Assessing local need

In order to establish the particular mix of housing output required at a local level councils must assess local need and demand for market, intermediate and social rented homes. While existing regulation requires councils to establish the extent of housing need and demand, there are improvements that could be made to the way it is assessed.

The National Planning Policy Framework currently requires councils to carry out Strategic Housing Market Assessments, to determine the “scale and mix of houses that the local population is likely to need” taking into account “population projections” and “need for all types of housing, including affordable housing”.<sup>74</sup> There are a number of shortcomings to this duty as it is currently framed.

**Table 3: the mix of homes needed in London annually**

Clearing London's backlog over a 20 year timescale		
Tenure	Output	Proportion
Market	23,217	48%
Intermediate	9,902	20%
Social rent	15,722	32%
Total	48,841	100%
Clearing London's backlog over a 10 year timescale		
Market	20,806	34%
Intermediate	18,364	30%
Social rent	22,918	37%
Total	62,088	100%

Source: London SHMA 2013

First, the responsibility for conducting housing assessments lies with local authorities at the lower, district level. This means that the responsibility is split across the arbitrarily drawn administrative boundaries of 326 councils. While councils are under a ‘duty to cooperate’ and many Strategic Housing Market Assessments are commissioned by a number of councils acting together, there is no requirement that councils complete assessments together or – in doing so – that they capture the full extent of the local housing market in which they exist. Without requiring assessments to be completed across functional economic areas there is a serious risk that co-operation occurs where it is convenient or politically expedient and not on the basis of the full extent of housing markets. This means that the full needs of

72. Information taken from Oxford and Cambridge’s Strategic Housing Market Assessments. This finding might seem implausible as it would seem impossible that the need for any type of housing could outstrip the total need for housing to accommodate population growth. However, as the new population figure reflects the projected growth based on existing trends it is perfectly possible for need for affordable homes to run ahead of it. The ‘existing trend’ in both Oxford and Cambridge is for a large number of people to be unable to afford lower quartile rents. To change the affordability thus requires a fundamental shift away from existing trends.

73. London Strategic Housing Market Assessment 2013

74. National Planning Policy Framework, DCLG

areas may not be properly assessed, or that identified need is artificially concentrated in some authorities and not others.

In order to address this, Shelter has proposed that housing need and demand should be assessed at the level of functional economic areas rather than at a local authority level as demand and need cuts across local authority boundaries.<sup>75</sup> One way we have suggested this might be done is to give Local Enterprise Partnerships the responsibility for commissioning assessments.

Second, while councils are required to complete assessments, they are not required to do so with any specific regularity or in response to changing economic circumstances. While National Planning Policy Guidance does recommend that assessments of need should be “updated regularly”, this is not widely observed.<sup>76</sup> As such, some assessments are several years old and were completed in a very different economic context. When Shelter reviewed the assessments of all English councils earlier in 2014 over 120 councils had Strategic Housing Assessments predating 2010, which had not been substantially updated.<sup>77</sup>

Full Strategic Housing Market Assessments are a significant undertaking and Shelter does not believe that all aspects of local need will be subject to regular change. However, given the considerable changes in the cost of housing (house price change between 2007 and 2014) and ability to pay (below inflation income growth), responsive and regular assessment of the balance of output growth required is clearly needed.

Third, councils are currently only required to assess the need for ‘affordable’ housing, and not to separate the need for social rented homes and intermediate homes. While some Strategic Housing Market Assessments

do include separate assessments for the level of social rented and intermediate homes needed this is an exception rather than the norm. Clearly, need for intermediate and social rented housing is very different and drawing out this difference is particularly important under the new Affordable Rent regime, as special justification is now required for providing social rented homes with government grant, rather than intermediate Affordable Rented homes. As such, Shelter believes that assessments should identify the need for intermediate and social rented homes separately.

### Meeting need locally

Of course, adequate assessment of need is only the first step: assessment needs to feed through into policies and plans that are implemented on the ground. Sadly, performance in this respect is extremely patchy. A review of the SHMAs for three North London,<sup>78</sup> Cornwall and South West Devon<sup>79</sup> and North Yorkshire<sup>80</sup> shows that only one of the seventeen districts covered had actually delivered the number of intermediate and social rented homes assessed as needed in any of the last three years.<sup>81</sup> In the last year, only 15.4% of the identified need for sub-market housing was met through new social rented and intermediate homes across the North London area, 21.7% across North Yorkshire and 26.4% in Cornwall and South West Devon.

Much of the action required to increase supply must come from national government, as set out above, but many of Shelter and KPMG’s proposed reforms are designed to empower and incentivise councils to meet the need and demand that already exists in their local housing area. These proposals are set out in full in *Building the homes we need* and summarised in table 5 on page 26.

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75. *Building the homes we need*, Shelter and KPMG, 2014

76. National Planning Policy Guidance, DCLG

77. Shelter reviewed the Strategic Housing Market Assessments of all 326 districts in England in April 2014. 121 councils had Strategic Housing Market Assessments predating 2010 and 36 had assessments from 2007, with fieldwork done before the full extent of the financial crisis had been felt.

78. Barnet, Camden, Enfield, Hackney, Haringey, Islington and Westminster

79. Plymouth, Cornwall, South Hams and West Devon

80. Craven, Hambleton, Harrogate, Richmondshire, Ryedale, Scarborough and City of York

81. West Devon delivered 170 affordable homes in 2010/11 against a 2013 assessment of a need for 140 new affordable homes annually. However, in the 2011/12 and 2012/13 the number of new affordable homes in the borough slumped to 30 and 0 respectively.

**Table 5: Empowerment and incentives for councils**

Effect on councils	Policy change
Empower	Allow councils to access greater benefits of planning gain <sup>82</sup> by giving them the power to assemble public and private sector land through the creation of New Home Zones
	Improve the viability of sub-market housing on new developments by boosting public and private investment
	Allow councils to build more by lifting the caps on borrowing for development that are currently imposed on them by central government
	Increase flexibility to make green belt swaps, taking poor quality land out of the green belt and putting in more high quality land elsewhere that should be protected
Incentivise	Require assessment of housing need and demand across functional economic areas so that councils understand the true local picture
	Put housing at the heart of a new round of City Deals, giving new powers and budgets to those councils who are willing to cooperate to deliver increased output

Where new resources are created through these policy changes they should be distributed by national government in line with the pattern of local need and demand, with particular areas of demand (such as London, Oxford, Cambridge, etc) prioritised accordingly. Identifying areas of high demand, and partnership working between national and local government will be particularly important for determining the location of new garden cities.

As the national mix of new homes required is based upon aggregated housing need taken from across the country, this package of policies should lead to balanced output growth if it is effectively implemented and new resources are intelligently distributed. However, if this does not happen the minister should explain to government why this is the case, and take further action in line with the proposals in the previous section.

82. Planning gain is the uplift in the value of land which is created by granting planning permission. At present, a portion of the planning gain made on some sites is clawed-back through Section 106 and Community Infrastructure Levy payments. Land assembly through New Home Zones would allow councils to acquire land before planning permission has been granted in order that site-specific planning gain could be wholly retained by the council to fund aspects of the development.

# Conclusion and recommendations

Increasing home building to 250,000 homes a year should be the central focus of the next government. But achieving this without a diverse mix of housing supply will be neither possible nor desirable.

No single type or tenure of housing can solve England's housing crisis alone and each type has a different function in the English housing supply system. More new market, intermediate and social rented homes are needed to meet the needs of the diverse mix of households who have been left behind by England's broken housing system, and to fix that system for future generations.

Providing a balanced mix of tenures is essential to the core objective of increasing overall housing output. Different funding sources and policy levers are best suited to stimulating the supply of different types of home, and all of these need to be deployed as effectively as possible to maximise overall supply. We also need to increase the diversity of delivery models in the house building sector to make it more competitive, more innovative, and less prone to cyclical shocks. Achieving this transformation will require concerted government action.

## **Recommendation 1: The next government should commit to increasing home building in a balanced way and make it the responsibility of a new cabinet-level housing minister**

A diverse tenure mix is essential to increasing overall output, making supply more resilient, and meeting the housing needs of current and future populations.

As part of a commitment to deliver a minimum of 250,000 homes a year the next government should make a commitment to delivering broadly balanced housing output of 50% market, 20% intermediate and 30% social rented homes. The definition of tenures should include classification of Affordable Rent as an intermediate product. Delivering this balanced mix should be made a specific responsibility of a cabinet-level housing minister.

## **Recommendation 2: The next government should implement the policy package needed to deliver balanced output growth**

The level of output of market, intermediate and social rented homes we need has not been achieved for decades. The current policy context is also delivering a contraction in output of intermediate and social rented homes. Balanced output growth will thus not occur without a coherent and sustained package of investment and reform, as set out by Shelter and KPMG in *Building the homes we need*.

## **Recommendation 3: The next government should monitor the tenure balance of housing output**

To understand the impact of policy changes government will require a robust set of regularly published data on output levels of each housing type. The next

government should publish a new statistical release on a quarterly basis including output levels of market, intermediate and social rented homes, under the definitions here proposed.

## **Recommendation 4: The housing minister should be given responsibility for responding to imbalances**

Short term imbalances may occur as total output is increased as different policy changes will come into effect with varying immediacy. Where imbalances occur as part of the development process, government should take further action to stimulate underperforming housing output. Where imbalances in output occur in the quarterly statistical release, the housing minister should explain what further action is being taken to correct them and estimate when output growth will return to a balanced mix.

## **Recommendation 5: The next government should empower and incentivise local authorities to deliver**

A national commitment to a balanced mix should not imply centralised targets imposed on local authorities. Instead, local authorities should be empowered and incentivised to respond to the levels of housing need and demand that exist across the housing market in which they are situated. The next government should implement the package of policy change in *Building the homes we need* to empower and incentivise councils to respond to housing need in their local housing market, which should be assessed at the level of functional economic areas.

## **Recommendation 6: The next government should develop better and simplified intermediate options**

By increasing the output of intermediate homes to the highest levels that have ever been built in England government will ensure that more people are able to access the benefits of home ownership. But as well as increasing the output of intermediate homes the government also needs to consider how intermediate housing can be made to work for more people.

The next government should explore new forms of intermediate housing to widen access to intermediate homes, including low share shared ownership and affordable rent-to-buy homes.