

Making Housing Affordable Again: Rebalancing the Nation's Housing System

Executive Summary

A report by the Affordable Housing Commission



**Affordable
Housing
Commission**



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Foreword

After 18 months of studying the misery caused by housing affordability problems, the Affordable Housing Commission has not discovered a silver bullet that could fix everything. But we did unearth an underlying cause of so many households struggling with disproportionate housing costs: it is the switch into the private rented sector – which has more than doubled in size in less than twenty years – from both social renting and from home ownership.

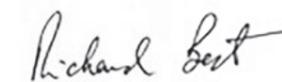
The scaling back – indeed the halving – of the social housing sector has pushed more people into the private rented sector where there is less security and significantly higher rents; and the obstacles for potential first time buyers have also confined more of them to private renting where they too face less security and, over a lifetime, greater cost.

Our report's extensive list of recommendations, therefore, suggests ways of rebalancing the nation's housing to secure more social rented housing and more affordable home ownership, for those for whom private renting is not the best option.

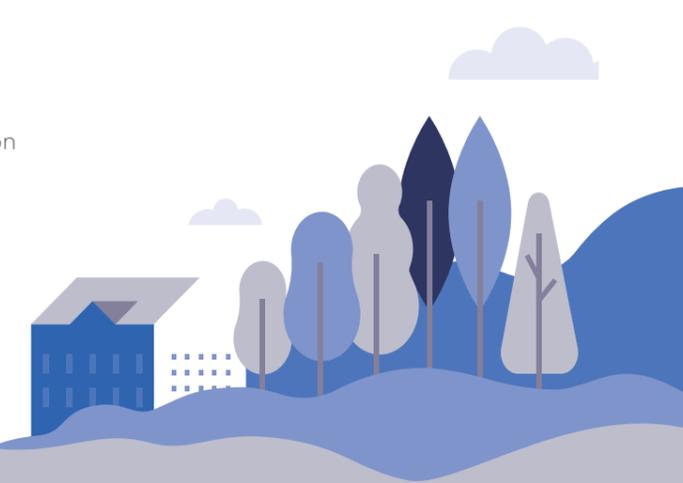
Now we hope to join forces with all housing policy-makers and practitioners who share our ambition to end affordability problems in a generation.

The Commission is indebted to those who participated in our many seminars, conferences, focus groups, polls and surveys, and to those 90 contributors who submitted invaluable evidence. Sincere thanks go to the Nationwide Foundation for supporting this extensive exercise and to the Smith Institute – to Paul Hackett and Paul Hunter – for researching, scripting and managing the whole process with great skill and enthusiasm.

I am extremely grateful to my fellow Commissioners who have seen this through to a unanimous report. I hope the reward for everyone's endeavours will be a wider recognition by policy-makers – not least in forthcoming government White Papers and the next Spending Review – that housing affordability must now rank among the nation's highest priorities."



Lord Richard Best
 Chair of the Affordable Housing Commission



Preface

The homes people want, in the places they need to live, are becoming more and more unaffordable. Ordinary people are struggling with housing costs and for some this means being pushed deeper into poverty, leaving no money behind once their rent or mortgage have been paid. For the most vulnerable families and individuals in our society, having nowhere suitable to live has lasting and damaging consequences.

As a funder committed to long-term system change, our vision is that everyone should have access to a decent affordable home. It is to this end that we funded the Affordable Housing Commission.

We believe the Commission's powerful recommendations and robust analysis of the housing system, through the lens of affordability, provide an opportunity for real change. Therefore, we are passionate that the legacy of the Commission should be the formation of a coalition of the willing. It is our hope that this alliance helps to lead to the creation of a modernised housing system where everyone has choice, freedom and stability.



Leigh Pearce

Chief Executive of the Nationwide Foundation

The Affordable Housing Commission's Commissioners

Lord Richard Best, Chair of the Affordable Housing Commission

Claire Ainsley, Executive Director, Joseph Rowntree Foundation

Sinéad Butters, Chief Executive, Aspire and Chair, PlaceShapers

Ian Fletcher, Director of Policy, British Property Federation

Prof. Ken Gibb, Director, UK Collaborative Centre for Housing Evidence

Robert Grundy, Head of Housing, Savills

Kate Henderson, Chief Executive, National Housing Federation

Lindsay Judge, Senior Research and Policy Analyst, Resolution Foundation

Geeta Nanda, Chief Executive, Metropolitan Housing Association and member of the London G15

Jo Negrini, Chief Executive, London Borough of Croydon

Martin Newman, Co-founder and coordinator, Giroscope

Jenny Osbourne, Chief Executive, TPAS – the tenant engagement experts

John Slaughter, Director of External Affairs, Home Builders Federation

Gavin Smart, Chief Executive, Chartered Institute of Housing

Dan Wilson Crow, Chief Executive, Generation Rent

The Commissioners are members of the Affordable Housing Commission in a personal capacity. The views expressed in this report do not therefore necessarily reflect the views of their organisations.

The Affordable Housing Commission

The Affordable Housing Commission was established in October 2018 to examine the issue of unaffordable housing in England. It was formed as an independent, non-partisan group established by the Smith Institute with the support of the Nationwide Foundation charity. It is chaired by Lord Richard Best with 14 leading players from across the housing world.

The Commission's objectives were to:

- > Examine the causes and effects of the affordability crisis and how it relates to tenure, place, demographics, incomes, wealth distribution, life chances, as well as the social and economic impacts.
- > Explore and propose workable solutions (big and small).
- > Raise awareness of the concerns and solutions (among practitioners, decision-makers and the public).
- > Engage stakeholders and build a consensus for change.

The Commission embarked on an extensive work programme, which included data analysis, quantitative and qualitative research (including focus groups and opinion polling), a call for evidence, consultation meetings and interviews with stakeholders and other interested organisations, and a series of events and conferences.

The Commission met seven times and Commissioners kept in regular contact remotely, helping with the research, analysis and promotional work. A dedicated website was established, which hosted the Commission's reports, which include 'Defining and measuring housing affordability – an alternative approach' (June 2019); 'Why is housing unaffordable: a literature review for the Affordable Housing Commission (June 2019); 'Public views on unaffordable housing: focus groups conducted for the Affordable Housing Commission' (February 2019); and 'Defining affordability: AHC focus groups' (February 2019).

An animation on housing affordability (co-produced with CaCHE) was also released in January 2020 'Why is housing so expensive?'

www.youtube.com/watch?v=czywtmOPqfl

More information is available from

www.affordablehousingcommission.org

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Twitter: [@AHC_Housing](https://twitter.com/AHC_Housing)

Summary

Over the past 18 months the independent Affordable Housing Commission has undertaken a wide-ranging review of housing affordability in England. This – the final report based on considerable evidence and new research – has over 50 recommendations covering key supply and demand aspects of affordability across all tenures and housing markets.

The in-depth analysis and proposals seek to inform, engage and influence the housing world, politicians and policy makers, as well as the wider public and others who are affected, including local government, business, and the voluntary sector.

The Affordable Housing Commission is calling on government:

- > To rebalance the housing system so there are affordable housing opportunities for all by 2045.
- > To make affordable housing a national priority and to put it at the centre of a national housing strategy.
- > Improve the safety net for struggling renters and struggling homeowners.
- > To adopt a new definition and alternative measures of housing affordability, which relate to people's income and circumstances.
- > Increase investment in new social housing alongside reforms to help rebalance the system away from the private rented sector to social housing.
- > Constrain rent increases, end Affordable Rent, reform the Right to Buy and buy back some private rented homes.
- > Support first-time buyers stuck in the private rented sector by levelling the mortgage market, and targeted support for deposits and increasing supply.
- > Bring all homes up to a safe and decent standard.

Affordable housing for all

The Commission's findings and recommendations are intended to help forge a cross-party consensus. It is not an exercise in apportioning blame – the affordability crisis has been decades in the making. Instead, the Commission has proposed practicable ways to reduce the hardship and stress caused by the lack of 'genuinely' affordable existing and new homes.

With special relevance to the Covid-19 pandemic, the report also calls for urgent action to protect struggling renters and struggling homeowners – many of whom will soon be under desperate housing stress.

There are no simple answers. As the report illustrates, housing unaffordability is related to a host of factors and trends – not least flat incomes growth and low interest rates. However, without action, the situation is likely to worsen as Generation Rent ages and more households have no housing option except renting in the private rented sector (PRS) at costs which can lead to arrears, debts, stress and poor health. There will also be wider societal costs and growing housing benefit expenditure.

Connecting the solutions will be challenging and it is important to ensure that all parts of the housing system – public and private – contribute. Change is happening, but the Commission believes a major adjustment to the housing system is needed. What we are seeking is a "coalition of the willing". A collective effort, led by government, to make housing affordable again.

The Commission recommends that the government commits to ensuring that no child born today should face living in housing that is unaffordable for them by the time they are likely to form a household of their own. Across tenures, this would mean access to affordable housing opportunities for all by 2045.

To meet this target, the Commission recommends central government works with local government to draw together a National Housing Strategy, adopting recommendations from this and other reports.

Affordable housing opportunities for all by 2045

A failure to reverse the tenure shift away from social housing and towards the PRS will place more people under housing stress. The Commission believes it is not right that so many households find themselves locked in poverty or under acute housing stress due to their housing costs. It is also unfair that so many struggling private renters are being "priced out" of homeownership.

In 25 years time – on current trends – a further 400,000 social rented homes could be lost. This would shrink social rented housing from its peak of a third of the nation's homes to just 11%. More people will then have to rely on private landlords.

Conversely, if the Commission's recommendations were carried forward, then social housing could increase to over a fifth of the total housing stock, with the PRS contracting overtime, perhaps toward its level of a decade ago. Homeownership, meanwhile, would increase. This outcome would help to stabilise the system and allow millions more people to access affordable housing.

Rebalancing the housing system

The report calls for a rebalancing of provision, notably between the PRS and the social housing sector. The Commission holds the view that significant parts of the much enlarged PRS is not suited to deliver homes for all the households who must now turn to it; and that the much-reduced social housing sector has become too small to fulfil the vital role it should be playing.

At the same time, because the building of new homes has been left mostly to the major housebuilders and the provision of social housing from councils and housing associations has been at much reduced levels, a persistent shortfall in affordable supply has exacerbated the position. High house prices and rents have added to housing stress and constrained homeownership.

These factors have led the Commission to call both for an extensive expansion of social housing provision and additional help so more people can become homeowners. Our recommendations aim to ensure, over the years ahead, there is not just more affordable housing for those on lower incomes but also more (sustainable) home ownership for those currently denied the chance to buy. Our overarching message is that whatever tenure people live in, they should have a secure and decent home at an affordable price.

The Commission's focus group sessions with renters in Birmingham revealed:

Strong feelings that the system isn't fair and "favours those with money"

A frustration that "saving to buy is impossible"

That private renters are "fed up with high rents"

That new homes are expensive and "not for us"

A need for social housing, but seen as "housing for others"

Support for intervention in the market, especially rent regulation

Why is housing affordability so important?

Housing unaffordability is a significant cause of many of the nation's social and economic ills. It is the lack of affordable housing that so often lies behind the problems of poverty, homelessness, debt, family breakdown, mental and physical poor health. Housing stress also has negative effects on people's life chances – as well as on local communities, the business and voluntary sector, the wider economy, and public spending. The Commission's findings show:

- > Rent arrears, debt and financial exclusion are major issues for many – because struggling renters are trying unsuccessfully to pay their rents.
- > Improvements in standards of living are being held back – because housing costs for increasing numbers absorb such a large amount of their income.
- > Many working people are frustrated that they cannot achieve home ownership – because it is impossible for most tenants to save a deposit when rents consume so much of their income.
- > There has been an increase in the number of young adults reluctantly staying with their parents – because the only housing available is in the PRS at rents they cannot afford.
- > Housing Benefit costs have risen by 40% since 2001 – because rents and Housing Benefit costs per claim are higher.
- > Councils in England are faced with households made homeless when their (shorthold) tenancy has been ended – because benefit reductions have meant tenants cannot afford to stay in their private rented accommodation.
- > Numbers of families in highly unsatisfactory Temporary Accommodation have risen, at a cost of over £1bn per year – because those families (in work as well as with no earnings) cannot afford anywhere to live.
- > Employers cannot recruit and retain the people they need, and productivity is affected – because high housing costs prevent would-be employees from moving to take up job and the workforce is displaced to a greater distance from the workplace.
- > Over half of benefit claimants renting privately are in poverty – because the risk of poverty after housing costs increases substantially for those in the PRS compared with those in social housing.
- > Housing inequality is a cause of inter-generational friction – because of the divide between older owners with appreciating property assets, and a younger generation of renters who must devote such a high proportion of their earnings to unaffordable rents.

Redefining housing affordability

The Commission has adopted a basic tenet: "your housing costs should not exceed 33% of your net income". In addition, incomes are "equivalised" to take account of family size and formation.

We regard rents, and the cost of buying a home, as creating an affordability problem where costs exceed this level. And we are particularly concerned at the numbers – mostly in the PRS – who are paying more than 40% of their net income for their housing.

However, for those in poverty and reliant on benefits, affordability depends on housing support – Housing Benefit or the housing element of Universal Credit: if the rent is more than the support provided, the tenant will have to make up the shortfall by using benefits provided for food and other non-housing living costs – so their home is simply not affordable.

The Commission was also of the view that affordability could not come at the expense of quality. Therefore, those living in non-decent or overcrowded housing are also included in our alternative definition and measures of affordability.

Who is most affected?

The Commission identify three groups who are under the most housing stress: struggling renters, struggling homeowners, and struggling older households. Together these add up to 4.8m households, which represents one in five of all households in England and almost 40% of those in the lower half of the income distribution.

Around 1.3m are in the social housing sector where rents are lower but so are incomes. This is predominantly about problems with inadequate benefits (as well as overcrowding and stalled progress on bringing all homes to a decent standard), rather than the cost of rents.

A further 1.6m are in the owner occupier sector, a large proportion of whom are older homeowners on low incomes in unfit properties.

But it is in the PRS that the greatest problems are found, with 2m households in potential difficulty – representing 43% of all households renting privately. And, the households devoting 40% or more of their incomes to rent – the group at highest risk – are predominantly in the PRS.

Number of households under retirement age, by rent to income (% of all renters)

	No affordability issue	33%-39%	40%+
Social housing	87%	6%	7%
PRS	71%	6%	23%

In addition, we identify a fourth group: frustrated home buyers, mostly in the PRS, for whom lenders' requirements for mortgages or inadequate incomes make home ownership impossible.

The Commission proposes a new definition and alternative measures of housing affordability, focused on incomes and personal circumstances, rather than market prices. Our measures are based on an affordability threshold at the point when rents or purchase costs exceed a third of net equivalised household income. It also takes account of related affordability issues, such as housing quality, overcrowding, adequacy of Housing Benefit, household size and regional variations.

What has caused the problem?

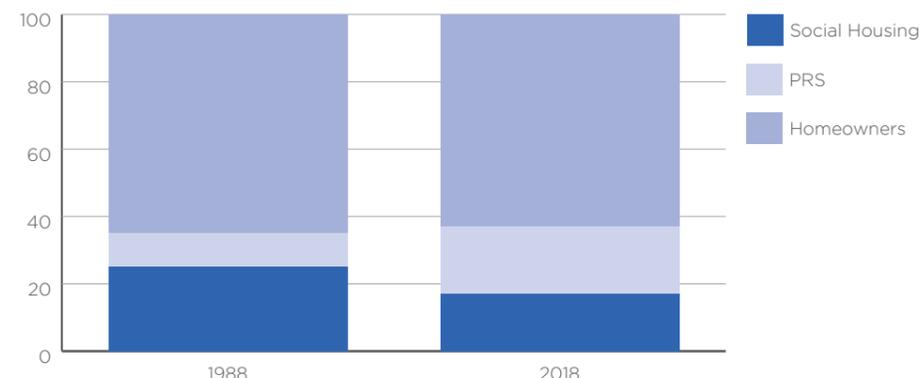
The most striking change in housing over recent decades is the more than doubling in the size of the PRS – up from less than one in ten homes to around one in five, in just twenty years.

Meanwhile the social housing sector has halved from its peak and shrunk from three times the size of the PRS to being appreciably smaller. A major reason for the shift has been the sharp reduction in housing grant, especially for social rented homes. Although the new 5-year Affordable Housing Programme from 2021 has increased grant levels, subsidies are still well below what they were in the period before 2010.

The switch to private renting

There are now twice as many households in the PRS where rents are higher (twice as high on average and three times higher in London). And the biggest shift towards the more expensive PRS has been amongst those on lower incomes.

Tenure change over the last 30 years



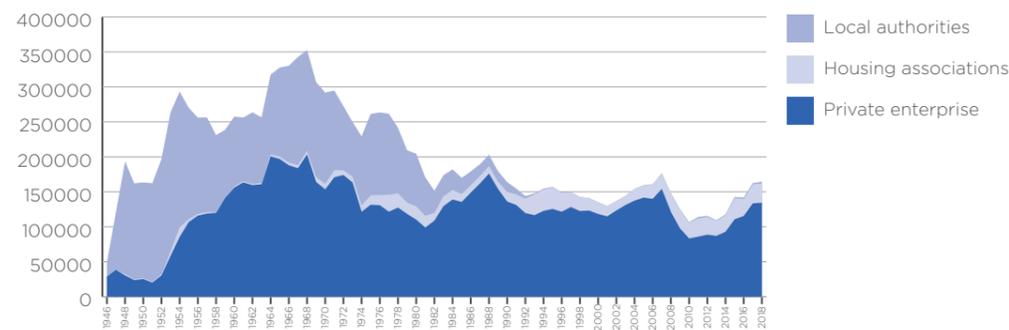
Source: MHCLG, Live table 104

The switch away from social housing

There has been a significant shift away from social housing. The reasons include:

- > Decline of council house building: the annual building programmes of local authorities fell from peak years – averaging over 100,000 a year in the 1960s/1970s, to virtually nil by the 1990s and have barely recovered.
- > Smaller build programmes for housing associations: provision of social housing, both through acquiring new homes from the private sector via the planning system (Section 106 agreements), and by building new homes themselves, has been at considerably lower levels than earlier council programmes. Grants to housing associations have halved since 2010 and housing support has switched from investing in social housing to subsidising rents.

New build by tenure, England



Source: MHCLG Live table 244

- > Sales of Council housing under the Right to Buy (RTB): these have depleted the social stock by some 2m rented homes since 1980. Hundreds of thousands of the properties purchased under the RTB scheme have moved into the PRS.
- > Switch to Affordable Rent: provision of homes at social rents has been replaced in recent years with more lettings at higher rents – labelled ‘Affordable Rent’ (equivalent to 80% of market rents in most part of England and 60% in London). Social landlords have re-let over 200,000 existing properties at Affordable Rent, further diminishing the amount of housing that households can afford.

The rise of Affordable Rent and the fall in new social rented housing



Sources: MHCLG Live Table 1000 and Regulator of Social Housing, Statistical Data Return

When we bring together the numbers of social rented homes – i.e. the homes with rents within the Commission’s definition of affordability – we face a worsening situation. The combination of demolitions, conversions to Affordable Rents and RTB sales currently exceeds the number of newly built social rented homes by 17,000 a year. If this decline continued, the number of social rented homes would reduce as a proportion of the total housing stock from 16% today to just 11% by 2045.

Loss of social rented homes: 2018/19

New build social rent	6,000
Demolitions	-4,000
Affordable Rent conversions	-5,000
Right to Buy sales	-15,000
Acquisitions	1,000
Total loss of social rented homes	-17,000

Source: AHC/Live Tables/ Regulator of Social Housing, Statistical Data Return

How can we make housing affordable again?

The Commission believes that to address the fundamental causes and not just symptoms of the affordability crisis, the government should take concerted action to rebalance the housing system, and in particular, to shift the tenure mix much more towards social housing as well as affordable homeownership. This would make the housing system fairer and more efficient.

Reversing the tenure shift

It follows from the Commission’s analysis that what is needed is a reversal of the switch from social housing to the PRS. Expansion of the PRS has taken it beyond the scale at which it can best meet local housing requirements. While it can work well for many young, mobile households – including students – the PRS has its limits. It should no longer be expected to provide for households for whom it is ill-suited. It is not the solution for:

- > Lower income households where rents represent over 33% of take-home incomes.
- > Tenants in receipt of Housing Benefit that doesn’t cover their rent sufficiently.
- > Families who need the stability of long-term security, on affordable terms.
- > Older and vulnerable people for whom there are special considerations for safety and support, as well as affordability.

This implies a smaller but better, more professional PRS.

For those in the bottom half of the income distribution the “tenure shift” has been dramatic: 20 years ago social rented housing provided 36% of homes for this half of the population and the PRS housed 12%. By 2017 social rented housing was down to 28% and the PRS had grown to 22%.

Tenure shifts amongst the bottom half of the income distribution (% of total households)

	Social housing	PRS	Homeownership
2000	36%	12%	51%
2017	28%	22%	51%
Change	-8%	10%	-

Source: AHC Measuring Affordability report

Increasing the supply of social housing

There is universal, cross party-political agreement on the need for an increased supply of homes that are affordable to those on average, and below average incomes. The continued lack of social housing will exacerbate affordability problems – in both urban and rural areas.

- > We strongly endorse the imperative of providing at least 90,000 homes to let at the social rents, which we define as Local Income-Related Rent: this requires social housing grants that mostly support developments with lower rental income than current Affordable Rent.
- > Clearly these grants, which typically today cover only 15% of costs of building a new home, need to be at or above the levels pertaining a decade ago (around half the building costs).
- > The Commission is concerned that, with the falling support from grants, many social landlords have become over-reliant on selling new homes to cross-subsidise their affordable housing provision. With a drop in market sales, social housing numbers will decline unless grant levels are restored.
- > This should be part of a wider public-private programme of affordable housing delivery, including shared ownership and intermediate rent, as well as a push to increase overall supply levels. Such a programme is estimated to cost in excess of £12bn a year in capital grant, alongside the private new build which provides affordable housing through Section 106 agreements.

The Commission recommends that the government seeks a step change in affordable housing supply in line with the latest assessments of housing need. On current best evidence this would equate to an increase to about 90,000 social rented homes a year (forming part of the government's overall housing target of 300,000 homes a year).

The Commission recommends that in order to deliver the necessary increase in the supply of social homes, bearing in mind the necessary expense for improved safety measures and decarbonisation, the government must increase the level of capital investment in affordable housing to at least the level prevailing in 2010. Such investment brings additional economic and social benefits.

- > The Commission recommends placing obligations on social landlords to ensure the affordability of the bulk of their new homes, using income data from local authorities and taking account of guidance from the Regulator of Social Housing on a revised, obligatory Rent Standard.
- > Over half of the new homes for rent provided by social landlords come from planning requirements on housebuilders. The majority of these homes need to be let at social/ Local Income Related Rents.
- > Permitted Development Rights for the conversion of office space into new housing are having negative consequences on housing standards and the delivery of genuinely affordable homes.

The Commission urges the government, in its forthcoming planning and social housing White Papers, to focus on reforms to improve the supply of affordable homes. These should include: returning Permitted Development Rights powers back to councils, support for alternative approaches to capturing 'hope value', and ensuring planning authorities are adequately resourced. The Commission also recommends government encourages local authorities to be resolute in requiring a level of affordable (and especially social rented) housing from Section 106 agreements.

For rural areas, the Commission recommends that the government offers greater support to innovative affordable housing initiatives, including for Community Land Trusts and small builders. Such support could include regulatory reforms and tax incentives to encourage landowners to assist with housing provision for local people, with housing remaining affordable in perpetuity. And, councils should be permitted to require some affordable housing to local people in rural schemes of less than 10 homes.

Councils building again

The Commission welcomes the return of many councils to building new homes, propelled by the relaxation of borrowing rules and new local housing companies (often using council-owned land). We see the prospect of councils contributing 20,000 extra homes a year. However, to ensure the bulk of the new homes meet the priority need for affordability, rather than adding to supply at market levels, councils, like housing associations, will need adequate public funding.

The Commission was impressed by the evidence that spending on capital grants for social housing not only repays the investment with lower Housing Benefit costs but has significant additional economic and social benefits.

The Commission supports the government's encouragement to councils to build again at scale, directly and through Local Housing Companies. Achieving that ambition will require increased resources for councils to deliver a high proportion of social housing in mixed tenure developments.

Investing in new social housing has been shown to reduce the numbers in housing need by three times as much as an increase in private housing supply. There is also a strong economic case for delivering new social housing. It delivers additional housing to that provided by the market helping support the local workforce, businesses and productivity growth. Investing in social housing reduces the Housing Benefit bill, generates economic activity, creates jobs, raises tax revenues from construction and later in council tax receipts, and makes more productive use of land. These benefits deliver a net economic benefit even when accounting for upfront grant funding.

Utilising land and planning opportunities

Capturing the increase in land value that result from the granting of planning consent is a highly significant way of lowering costs of new development – including costs of keeping rents at affordable levels – without the necessity of more grant aid. The Commission was impressed by recent proposals for land to be acquired, if necessary, using CPO powers at no more than ten times current use value. A local authority development corporation would be responsible for such developments, creating a master plan to allocate sites for a mixture of renting and owning, subsidised by capturing the value of the uplift in the value of the land.

The Commission's recommendations around development corporations and land value capture will help increase the mix of affordable homes in large new settlements. New approaches should be tried, such as using modern methods of construction and designated housing planning zones. This would also help increase levels of supply, which over the longer term will help improve affordability.

The Commission is also calling for more public land and infill sites to be made available. The main driver should be providing new affordable homes. Tighter regulations are needed to end the sale of public land for market housing at unaffordable prices.

To reduce high land costs and the excessive gains achievable from the receipt of planning consents, the Commission urges the government to press ahead with the Letwin Review recommendations for acquisitions and land value capture through new development corporations established by councils. We recommend the definition of large sites as over 500 homes.

The Commission recommends that the preparation of local plans is made an enforceable statutory duty to ensure that all councils are delivering on their housing plans and targets. Local and city-region plans must be based on accurate housing needs assessment – including numbers of concealed households – which should be updated regularly.

Without greater support for social landlords and investment in land reclamation and construction skills, even a major house building programme will struggle to reduce the backlog – now at over 1m homes. An important contribution to this can come from bringing more empty properties back into use and scaling up the community-led housing sector.

Build to Rent

The Commission sees the recent growth of investment in the Build to Rent (BTR) developments, that draw in institutional investment and have demonstrated good standards of housing management, as good news. In contrast to the competitive purchase by other private landlords of existing properties, which has potential inflationary consequences, BTR increases supply. The size of its developments is likely to involve economies of scale and, indeed, to demonstrate innovation for the rented sector. While BTR rents are unlikely to be affordable to those on the lowest incomes, the extra provision generated by these new developers should ease pressure on the rest of the market.

The Commission welcomes the growth of Build to Rent homes and wishes to see the sector expand in order to provide additional affordable homes. The government should consider tax changes to remove barriers to growth, including ending the Stamp Duty surcharge for investors in Build to Rent.

Second homes and short-term lettings

The Commission noted that many 'second homes' are unused, and in some places, 'buy to leave' properties are used for wealth storage and/or tax avoidance. It was reported that many councils lacked the resources or capacity to act, and that a tightening up of the legal definitions and provisions as to what constitutes an empty home for enforcement purposes is needed. The Commission also calls for the government to undertake a review of overseas property investment and examine the impact of online holiday lettings, such as Airbnb, on affordability.

Reforming Right to Buy

The Right to Buy appeals to tenants, even amongst those most unlikely to benefit from it. But it makes little sense to press for the creation of a larger social rented housing sector when RTB subsidies to well-housed existing tenants continue to deplete the stock. The Commission also note the successful ending of the RTB in Scotland and Wales, partly because of the subsequent transfer of these properties into the PRS with its higher rents.

The Commission recognises that the Right to Buy remains a popular scheme. However, it is undermining efforts to address affordability, reducing numbers of relets at lower rents and by moving properties from social renting to the PRS. Accordingly, the Commission recommends that the RTB is radically overhauled, including giving councils and housing associations discretion over the level of discount they offer, complete control over receipts and the opportunity to restrict any letting by a purchaser (e.g. requiring consent for letting the property).

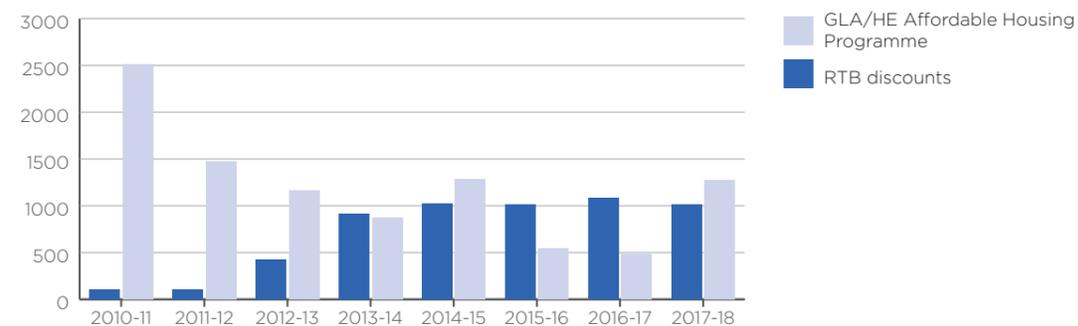
If the voluntary RTB is extended to other areas, the Commission recommends that current requirements for one-for-one replacement should be tightened to include like-for-like replacement by tenure – properly funded by government support – so sales do not result in a loss of social housing.

The Commission therefore advocate that discretionary powers should be made available to local authorities to set the level of the RTB discount locally. In some areas a continuation of the RTB may be entirely sensible, but in others, councils would be right to diminish the incentives to buy. And to support replacement housebuilding, HM Treasury should ensure 100% of receipts from sales are immediately recycled for new homes.

Transfer from private rented to social rented

In the 1960s and 1970s the growth of housing associations was propelled by the purchase of rented properties from private landlords. These were often portfolios of occupied street properties. The transfer from PRS to social rented housing provided security of tenure and "fair rents". A return to this approach would require funding for social landlords to purchase (or, in respect of RTB properties, to re-purchase) from private landlords who are leaving the PRS. Already several London boroughs have started acquiring PRS property, mostly to avoid the problems and excessive cost of obtaining temporary accommodation.

Right to Buy discounts versus the Homes England Affordable Housing Programme/GLA investment, England



Source: AHC and MHCLG/GLA and Homes England

The Commission also sees opportunities here for the purchase of empty homes and low value properties – very often Houses in Multiple Occupation – that are unattractive to first time buyers. These properties can fall into the hands of unscrupulous landlords who fail to upgrade the accommodation or provide an adequate service for tenants. Instead, purchase by social landlords – including community-based organisations – can have beneficial impacts in regenerating whole neighbourhoods (as well as providing apprenticeships).

The Commission recommends that a new Empty Homes Fund is established for social landlords and community organisations, similar to the previous Empty Homes Programmes. The tightening up of the legal definitions and provisions as to what constitutes an empty home for enforcement purposes is also needed.

The Commission recommends that central and local government continue to support community-led housing (in part through a new renewed Community Housing Fund). The government should help remove barriers to scaling up community-led housing, including exemption from leasehold enfranchisement.

Transfers from the PRS to the social housing sector could be accelerated if government agreed to tax concessions for such sales: for example, exemption from Capital Gains Tax for sales to social landlords, or for sales where individual landlords use the proceeds to acquire annuities. This would encourage disposals by those using the PRS as a pension equivalent and enable landlords to leave the sector without getting into any financial difficulty.

The Commission calls on the government to support (through extra funding) the scaling up of schemes to enable social landlords to buy existing properties and empty homes for social renters, especially non-decent homes in the PRS. Such programmes can help improve housing conditions, bring the benefits of regeneration to an area for lower costs than demolish/rebuild models and can contribute to the revitalisation and levelling-up of areas outside of cities.



Rents for existing properties

Concentrating on future provision must not mean ignoring the severe affordability problem we already face. It will take time – perhaps a decade or more – to redress the current imbalance of too many properties available at rents that impoverish the less affluent, and too few properties at rents that meet our affordability criteria.

Weekly rent levels 2018-19

	Social rent (mean, PRP) housing	Lower quartile market rents	Median market rents	Mean market rents
1 bedrooms	£81.93	£109.70	£142.03	£168.82
2 bedrooms	£93.50	£124.71	£155.89	£184.76
3 bedrooms	£103.08	£142.03	£175.52	£211.55
All	£95.12	£121.25	£160.51	£198.15

Sources: VOA, Private Rental Market Statistics April 2018 to March 2019 and Regulator of Social Housing, Statistical Data Return, 2019 Geographic Look-up tool

Too many tenants on benefit are struggling because of failings in the benefit system. Adequate welfare provision is therefore essential to addressing the affordability problem. The Commission therefore recommends accelerating reforms to Universal Credit so the delay in the initial payment is reduced from five weeks to under two; that payments can be made on a weekly basis; and that the Housing Benefit element of Universal Credit is paid directly to landlords by default with an option for tenants to receive the payment themselves if they so wish. The Commission also calls on the government to outlaw landlords and letting agents who discriminate against benefit claimants.

Rents for the social housing sector

Social landlords are not seeking to impose unaffordable rents. Many continue to struggle with much less public subsidy and some only provide social rented housing from the profits they make selling homes. The Commission also recognises that costs are increasing owing to decarbonisation and building safety, and that any future rent settlement needs to be designed with the welfare system in mind as well.

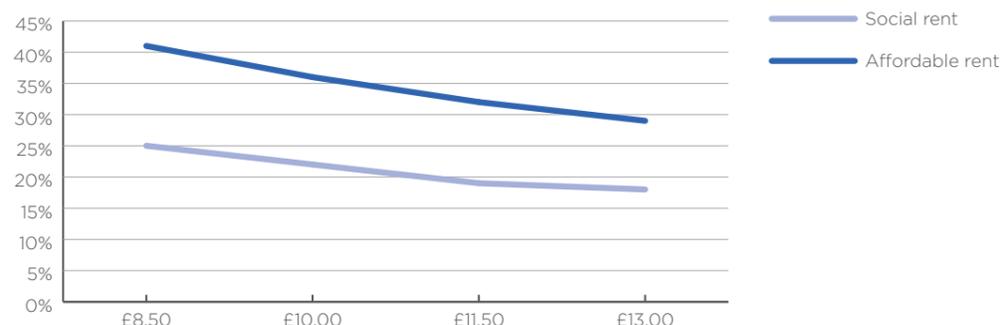
We recognise the need for the current arrangements for increases to existing social rents – at CPI+1% a year which accord roughly with increases in earnings – until 2025. Thereafter, the government should work with the social housing sector, tenants and the Regulator for Social Housing to design a sustainable future rent settlement that takes into account affordability for tenants and the welfare system, while delivering long term investment in existing and new homes.

We would like to see social landlords using greater rent freedoms to keep rents low and develop new rent models, such as London Living Rent. We also think employers could do more to ease housing stress for their employees.

Ending the Affordable Rent product

We have emphasised the problem of social rents being replaced by Affordable Rent – the latter being unaffordable in so many cases. While a household earning around the National Living Wage in social housing is paying around 25% of their income on rent, the figure is in excess of 40% for an Affordable Rent home. Not until their wage rate increases to £11.50 per hour will they be paying below a third of their net income.

Rent to income ratio for a two-person household (one working full-time and one part time) paying average Affordable Rent and social rent



Sources: Social housing lettings in England, 2017/18: Continuous Recording (CORE) data; social rents are the mean for both local authority and registered providers. Benefit levels based on Policy and Practice benefit calculator.

The Commission recommends the ending of the Affordable Rent product. If transitional funding is available and where financially viable, social landlords who have built and converted homes to the Affordable Rent should aim to return the homes to social rent or otherwise to intermediate rent, when tenancies end.

Rents for the private rented sector

At times of acute shortages, it may be necessary to constrain rent increases. But we would not advocate any across-the-board rent controls since these seem highly likely to have adverse consequences. Rather, with the expected extension of tenants' security, parallel measures are needed to limit excessive rent rises. A fixed period increase in line with inflation of earnings could be established for new tenancies, with rents reverting thereafter to the (higher or lower) market level for a similar further term.

The Commission recommends that new rent regulations be introduced alongside the legislation ending Section 21 'no-fault' evictions. Annual rent increases would be limited to an index of income growth for a fixed period.

The Commission recommends that charging more than the permitted rent increase would be an offence, with the landlord facing a fine and having to return the excess rent to the tenant. Enforcement will be needed where the law is broken with proposed rent regulation by the First Tier Tribunal (or new Housing Courts if these are established).

In the meantime, while we understand Government's frustration that Housing Benefit remains a major burden for the Exchequer, benefit cuts cannot be the source of savings in the short term. Housing Benefit and the housing element of Universal Credit need to cover all the rent of those eligible for a full entitlement. For the PRS, this means permanently lifting the freeze on Local Housing Allowances (LHA) and ensuring that a full 30% of PRS properties in any area can be accessed, when they come available, by those reliant on LHA payments. The Commission points out that an uprating would benefit tenants, reduce homelessness and provide significant savings to the Treasury.

The Commission welcomes the intention to end the LHA freeze but urges government to recalibrate LHA rates to the 30th percentile of local rented properties and recommends that in the future, uprating of LHA should be in-line with local rental prices and not general inflation rates.

The Commission believes that achieving affordable rentals means both setting rents for new homes (and working toward rents for existing homes) at around 33% or less of the incomes of households on average incomes or below.

It will take time in high demand areas to achieve this outcome and we recognise that the current basis for rent increases provides the necessary security for housing associations to borrow and to sustain their activities. But, over time, we would expect the sector's Regulator to require the boards of housing associations to review their rents periodically to keep them in line with local incomes.

Affording housing quality

The Commission is concerned about the quality of the country's ageing housing stock, particularly for low income households in the PRS and poorer older owner occupiers. Social housing is in a better condition thanks to the Decent Homes programme, but new investment is necessary to make all homes safe and reduce carbon emissions. The Commission believes that everyone should live in a safe, decent home and urges the strongest possible action from government to tackle the multiple failures that caused the Grenfell Tower tragedy.

The Commission recommends that the government examines the case for a national mandatory professional standard of competency in the PRS. Private landlords would have to demonstrate their credibility and a professional standard of management on a similar basis to the regulation of letting agents. The Commission also recommends that a new national landlord register (run by councils but freely open to the public) is established to improve standards within the PRS.

The Commission welcomes the government's plans to review the Decent Homes Standard. A Decent Homes 2 fund should be established to help bring all social homes up to a Decent Homes Standard by 2025. This could include eco-standards necessary to help meet the UK's climate change targets and reduce fuel poverty.

Affordable homeownership

The Commission's research indicates relatively small numbers of homeowners are paying more than a third of their income on their housing costs. Cautious lending has meant relatively low levels of possessions. However, the impact of the pandemic and the threat of a serious economic downturn could change the picture. A substantial rise in unemployment and/or interest rates could place relatively large numbers of buyers in jeopardy.

Struggling homeowners

Some homeowners struggle to pay their mortgage and need special assistance. Until recently Support for Mortgage Interest (SMI) gave confidence to lenders and protected households from a – usually temporary – catastrophe. But this support has become markedly less helpful in several respects, including taking the form of a loan, not a benefit. This can compound, not solve, the household's affordability problem. Payment to working age claimants is also only made after a 39-week waiting period, which is far to long.

To prevent hardship and a fall in homeownership during an economic downturn, the Commission recommends restoring Support for Mortgage Interest (SMI) as a benefit not a loan, reducing the waiting period, introduce regional caps, and linking payments to actual costs.

Frustrated home buyers

The Commission's analysis has highlighted the frustrations of those many renters – and people fed up with sharing or living at home – who want to become owners. They face either or both the problems of an income that is insufficient to satisfy mortgage lenders, and an inability to raise the necessary deposit.

Average FTB deposit 2019



Source: Savills, UK Finance, MHCLG

Both problems would be eased if regulations governing lender behaviour were relaxed: current criteria for borrowing – such as the loan to income ratio and the size of the deposit – are stringent, not least for those already paying more in rent than the cost of purchasing.

However, the Commission recognises that relaxed lending rules for home ownership could be inflationary and, if there is another economic downturn, risky for borrowers as well as lenders. Indeed, this approach contributed significantly to the worldwide banking crisis. So, with a few borderline exceptions (e.g. for 'mortgage prisoners' who cannot switch to a cheaper mortgage because of subsequent restrictions), it would seem prudent to remain cautious in considering relaxing the lending/borrowing rules.

The Commission believes that with government support some tenants in the PRS could buy the homes they rent.

The government should consider offering targeted tax relief to private landlords who sell to their tenants, with incentives to sell occupied properties with sitting tenants if they are not in a position to buy but wish to stay. If landlords evict their tenants to sell or move back in, they should pay the tenants' relocation costs, to minimise hardship.

Levelling the mortgage market

Younger households in the PRS paying over a third of their incomes in rent struggle to save for a deposit. Many who are seeking to access homeownership also face competition from Buy to Let landlords (BTL). Since the introduction of BTL lending in the mid-1990s, the sector has grown to 1.9m mortgages covering £240bn of loans (with BTL properties with mortgages now representing around four in ten households in the PRS). This has contributed to house price rises and squeezed out potential first-time buyers.

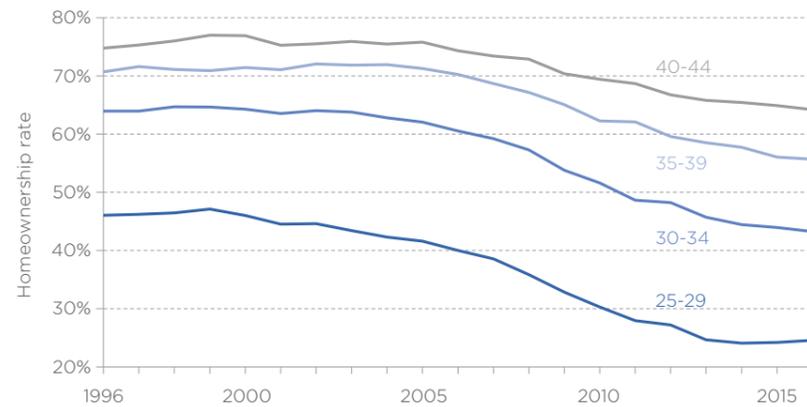
BTL landlords retain distinct advantages over first time buyers. Although they are losing some of their tax advantages and face an extra Stamp Duty premium, they are still able to obtain interest-only mortgages – which are not available to owner occupiers and can still offset interest payments for tax purposes. To take the next step in levelling the playing field for first time buyers, without changes to existing lettings, the Commission would like to see the Regulator restricting interest only mortgages to prevent landlords outbidding new buyers. This would not only help first time buyers but also form part of macro-prudential policy to alleviate the amplification of housing cycles and improve financial stability.

The Commission recommends that the government gives the Bank of England's Financial Policy Committee additional powers to limit the use of interest only Buy to Let mortgages. This would create more of a level playing field between owner occupiers and Buy to Let landlords.

Shared ownership and rent to buy

Homeownership among young adults has fallen since the early 2000s. In the long term, alongside measures to rebalance the housing system, the Commission also believes there will need to be an increase in overall housing supply, including mixed tenure new settlements. In the meantime, greater affordability – mostly for mid-income households can be created by initiatives of different kinds, such as Rent to Buy and shared ownership.

Homeownership for those aged 25-44, by five-year age band



Source: Cribb, J et al, The decline of homeownership among young adults (2018)

Social landlords are developing new shared ownership products, but in many high value areas tenants can no longer afford the qualifying income or deposit. There are also onerous obligations on occupiers, including sometimes costly fees on acquiring further equity shares and on repairs and maintenance. The Commission is also unconvinced that imposing a national shared ownership scheme will make a difference and sees the benefit of protecting shared ownership housing stock.

The Commission supports the scaling up of shared ownership products and believes more can be done to improve and simplify the deal for shared owners. The Commission sees little value in encouraging the sale of shared ownership homes on the open market. The Commission feels it is important that shared ownership homes are retained as affordable housing when being resold. There is little evidence to support the need for significant changes to the 'pre-emption' clause, which allows landlords to ensure homes are offered to qualifying households and would not wish to see significant changes to this 'Right of First Refusal'.

Help to Buy and First Homes

Help to Buy successfully incentivised volume housebuilders' to increase production to counteract the impact of the financial crisis. But it has been less successful in reaching those struggling renters who don't have access to the 'bank of mum and dad.'

We welcome the government's intentions to better target equity loans so support goes just to first time buyers, with regional caps on purchase prices, from 2021. The Commission would like to see the scheme extended to those buying an existing property as their first home, again with the funding concentrated on those in the lower half of the earnings distribution.

The Commission's analysis suggests, that if limited in scope, an extended Help to Buy to the existing market would not have a significant impact on house price inflation.

The government is currently consulting on its First Homes proposal where properties are sold and re-sold in perpetuity, at most at 70% of market value. The homes would be provided using current planning requirements on housebuilders (through Section 106 agreements). The Commission sees some merit in this scheme which could take the place of other discounted home ownership and shared ownership schemes. But, equally, the Commission would be alarmed if First Homes displaced the essential homes for social rent, which represent the highest priority of the Commission.

The Commission welcomes the proposed reforms of the Help to Buy Equity Loan scheme and recommends it should include support for those buying homes in the existing market – but should be limited to lower income first-time buyers.

The Commission recognises government plans to address affordability problems facing first time buyers through the First Homes proposal using Section 106 agreements on house builders. The Commission believes such housing should not come at the expense of reduced obligations on housebuilders to provide social housing and other successful affordable home ownership products. Government should also ensure that the new scheme does not override local planning authorities' objective and evidence-based housing needs assessments.

The Commission welcomes the government's commitment to build new communities. Government should, however, play a leading role in supporting local authorities to ensure that the new settlements are of the scale and quality required to increase supply and ease affordability pressures. This should include supporting the cost of infrastructure not only through land volume capture but also innovative funding models such as tax increment financing.



Housing for older people on low incomes

A significant downside of the growth in the PRS can be expected as a result of the increase in private tenants aged 35-44 who have missed the opportunity to buy. This cohort will reach retirement age in 20-30 years and their income will move from earnings to pensions. Since so many are spending disproportionately more on their rent, when their incomes are substantially reduced the already problematic rents will become quite unsustainable.

Future crisis for Generation Rent

Parliament's all-party group on Housing and Care for Older People forecasts another 1.5m households over pension age in the PRS in about 25 years from now. Of these it is estimated that 630,000 will have to move out – or government will have to increase very substantially Housing Benefit payments.

To head off this future crisis for PRS tenants, the current window of opportunity could be used to build more homes for later life. Delivering affordable housing specifically for older people has special value: those who downsize from family properties release much-needed housing for the next generation. A 21st century version of the extensive sheltered housing programme of times past would achieve “two for one”, i.e. both the release of under-occupied properties not least Council houses for families at modest rents and also create more suitable, accessible, energy-efficient, affordable homes for older people. It will also tackle problems of fuel poverty and loneliness for older people.

Unaffordable repairs

There are many older homeowners for whom the housing issue does not relate to mortgage payments but to their inability to pay for home improvements or a move to more suitable accommodation. Here we see the possibilities for equity release schemes that can generate the capital required for home improvements or bridge a gap for those downsizing to a new home. Currently there are difficulties in accessing relatively small sums that can deter elderly owners from using their assets to achieve better, warmer homes. We commend the initiative of lenders committed to providing suitable equity release products of this kind, sometimes alongside a Disabled Facilities Grant.

The Commission recommends the government takes forward the proposals from the APPG on Housing and Care for Older People, especially concerning greater support for affordable purpose built homes and extra care housing, better advice, incentives to downsize, and improved design standards; and consults with councils on setting targets in local plans to provide more and better housing for older people.

The Commission recommends that public and private investment in improving the housing stock of older homeowners should be increased and targeted on those whose cannot afford to undertake the work themselves.

Agenda for change

Making housing affordable again must be a national priority. The Commission concludes that a rebalancing of the nation's housing system is desperately needed: to create substantially more affordable homes for those on below average incomes; to help those who are “priced out” of homeownership; and to provide safe and decent homes for all age groups.

To rebalance the housing system will require a sustained effort and coalition of the willing. The Commission has suggested a new definition and alternative measures of affordability. We now need government to establish clear targets and a national housing strategy, which can take forward the interventions and ideas suggested by the Commission and others.

There are no quick fixes and solutions must be joined up with maximum local discretion – councils and metro mayors, for instance, should have the powers and resources they need to provide affordable homes for local people. The Commission is also calling for a stronger tenant voice and a recognition of renter unions.

A lot more funding – and more capital grant to social landlords – will be necessary. Investment in new social housing will need to return to at least 2010 levels. But, as the Commission shows, that step change in public housing investment will produce long term net savings and wider economic benefits.

The Commission's research and recommendations highlight the benefits of a new agenda to tackle housing unaffordability. It offers a considered package of connected reforms based on the evidence and views of housing providers, lenders, land and property owners, decision makers, and most importantly ordinary households and people suffering housing stress. The Commission believes change is possible and that we can work together to ensure access to affordable housing opportunities for all.

This Summary covers the report's principle findings and recommendations. The full report, which includes all the Commission's research and recommendations, is published separately and can be found on the AHC and the Nationwide Foundation websites.

Affordable Housing Commission

The Affordable Housing Commission is an independent, non-partisan group established by the Smith Institute with the support of the Nationwide Foundation. It is chaired by Lord Best with 14 leading players from across the housing world. Its core objectives are to: examine the causes and effects of the affordability crisis; explore and propose workable solutions (big and small); raise awareness of the concerns and solutions (among practitioners, decision-makers and the public); engage stakeholders and build a consensus for change.
www.affordablehousingcommission.org

The Smith Institute

The Smith Institute is an independent think tank which provides a high-level forum for thought leadership and debate on public policy and politics. It seeks to engage politicians, senior decision makers, practitioners, academia, opinion formers and commentators own promoting policies for a fairer society.
www.smith-institute.org.uk

Nationwide Foundation

The Nationwide Foundation is an independent charity that tackles the root causes of social issues to improve the circumstances of people in the UK who most need help. Its vision is for everyone in the UK to have access to a decent home that they can afford. The Nationwide Foundation was established by Nationwide in 1997 as a fully independent corporate foundation. The Nationwide Foundation (registered charity number 1065552) is a separate legal entity from Nationwide and is not part of the Nationwide Group.
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