



Affordable Housing Debate on 25 October 2018

Summary

This House of Lords Library Briefing has been prepared in advance of the debate due to take place on 25 October 2018 in the House of Lords on the motion moved by Lord Shipley (Liberal Democrat), “that this House takes note on the case for building more affordable housing”.

This briefing begins by discussing why there is widely said to be a ‘housing crisis’ which affordable housing might help to solve. One suggestion is that there is simply a shortage of homes. However, this has been challenged using figures which show a surplus of dwellings over households. The ‘shortage’ debate also depends on the rate of household formation, and official figures have recently been revised down. Another diagnosis is of an ‘affordability’ crisis in rents and prices. For rents, this has been debated, depending on the measure used. For purchases, there is a greater consensus that prices are out of reach for many, but disagreements on whether this matters if rents are affordable.

The briefing then looks in detail at affordable housing, discussing various definitions and types of affordable housing. These include social housing but also: properties with reduced rent; reduced prices relative to local market levels; or financing schemes such as shared ownership or equity loans. The arguments in favour of more affordable housing include: that it is simply a necessity for many families; that it could reduce poverty; that it would significantly reduce the housing benefit bill; and that it is essential, at least in London, to retain key workers. However, concerns have been expressed about the tenure mix of new social housing, to ensure that renting, and social renting in particular, is given sufficient prominence. The arguments against more affordable housing include that it distorts the market in a way which increases demand and reduces supply, thereby making the situation worse. Those advocating this argument tend to argue instead for increasing supply by relaxing planning restrictions.

Finally, the briefing looks at alternative policies for improving housing affordability, other than building more affordable homes. On the demand side the Government has several policies in place, including ‘help to buy’ and reduced rates of stamp duty for first-time buyers. However, one concern is that, without additional supply, these could simply push up prices further. The briefing also therefore discusses policies to increase supply, including specific annual targets, detailed interventions and government financial support.

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I. Introduction

There is a widespread belief that the UK currently faces a ‘housing crisis’. An article published by the Resolution Foundation stated that “at a time when politics has rarely been more divided, one major policy issue is a matter of cross-party consensus: we have a housing crisis”.¹ The thinktank Centre for Policy Studies described it as “one of the great public policy challenges of our age”.² The Prime Minister, Theresa May, has spoken of the country’s “national housing crisis”,³ while the Leader of the Opposition, Jeremy Corbyn, has stated that “whatever measure you choose, Britain’s housing system is broken”.⁴ However, despite this apparent political consensus, not all commentators agree that the market is facing a crisis—and amongst those who do, recommendations for addressing it differ.

This briefing sets out the key features of the housing market and considers whether more affordable housing is desirable. It looks first at some of the reasons why the market is said to be in a crisis which affordable housing might help to solve, focusing on the two issues of a possible supply shortage and affordability of rents and house prices. The briefing then considers what affordable housing is, followed by the main arguments for and against. Finally, it looks at other possible policy prescriptions, looking both from the demand and supply sides of the market.

Housing is a devolved policy area, meaning that policies are decided by the devolved legislatures in Scotland, Wales and Northern Ireland.⁵ However, discussions and statistics vary in whether they relate to the United Kingdom as a whole or various of its elements. Where possible, this briefing specifies which areas are being considered at each stage.

2. Why Might There Be a ‘Housing Crisis’?

Economist Andrew Lilico suggested that there were two fundamental ways in which a housing crisis might appear. These were: first, a physical shortage of homes compared to the number of households, either at a national or regional level; and/or, second, issues of affordability, ie that people cannot afford to pay to rent or buy a property.

¹ Ian Mulheirn, [‘Two Housing Crises’](#), Resolution Foundation, 23 March 2018.

² Alex Morton, [From Rent to Own: How to Restore Home Ownership by Turning Private Tenants into Owners](#), Centre for Policy Studies, 12 October 2018.

³ Prime Minister’s Office, [‘Prime Minister’s Address in East London on Making Housing Fairer’](#), 5 March 2018.

⁴ Labour Party, [Housing for the Many: A Labour Party Green Paper](#), April 2018, p 1.

⁵ Cabinet Office, [‘Guidance on Devolution’](#), 11 February 2016.

This section considers, in turn, the issues of supply shortages and affordability (separately for renters and purchasers) and considers arguments as to whether these do point to a housing market crisis. To summarise the position briefly:

- On supply, the Government’s diagnosis that there is a problem has been supported by the House of Lords Economic Affairs Committee, but challenged by some observers. Recently published figures might also affect the debate, but they have not yet attracted widespread comment.
- On affordability of rents, again there are disagreements, depending on which measurement statistics are used.
- On affordability of house prices, there is general agreement that these have risen out of the reach of many. However, some have argued that this is not an indicator of a ‘housing crisis’, as long as rents remain affordable.

2.1 Shortage of Supply

Having described shortage of supply and unaffordability as the two reasons why there might be a housing crisis, Andrew Lilico then stated that “it’s pretty obvious that what most commentators mean by ‘housing crisis’ is the first thought—that there aren’t enough houses to go around”.⁶

The Government has also focused on issues of supply. In a white paper published in February 2017, entitled *Fixing Our Broken Housing Market*, the foreword, by the then Secretary of State for Communities and Local Government, Sajid Javid, said that “this country doesn’t have enough homes. That’s not a personal opinion or a political calculation. It’s a simple statement of fact”.⁷

The white paper then stated:

Since the 1970s, there have been on average 160,000 new homes each year in England. The consensus is that we need from 225,000 to 275,000 or more homes per year to keep up with population growth and start to tackle years of under-supply.⁸

⁶ Andrew Lilico, [‘There is No UK “Housing Crisis” and There Never Was One’](#), CapX, 29 April 2015.

⁷ Department for Communities and Local Government, [Fixing Our Broken Housing Market](#), February 2017, Cm 9352, p 7. Note that the Department for Communities and Local Government (DCLG) became the Ministry of Housing, Communities and Local Government (MHCLG) on 9 January 2018. References throughout this briefing are to the entity as named at the time of the relevant publication.

⁸ *ibid*, p 9.

The white paper also argued that increasing supply would reduce housing costs for households regardless of tenure type. It stated:

The starting point is to build more homes. This will slow the rise in housing costs so that more ordinary working families can afford to buy a home and it will also bring the cost of renting down.⁹

One of the sources quoted by the white paper in reaching this conclusion was the House of Lords Economic Affairs Committee's 2016 report *Building More Homes*.¹⁰ This report proposed that the answer to the problems of the housing market was that “we must build enough homes to make housing more affordable for everyone—to rent or to buy”; it suggested a target in England of building “at least 300,000 homes a year”.¹¹

However, it is not universally agreed that there is a shortage of supply in the housing market. Economist Andrew Lilico has argued that this is simply not the situation in the UK.¹² Using data from the 2001 and 2011 censuses, he concluded that there is a surplus of dwellings over households in every region of the UK, and that this surplus has been increasing everywhere except London, where it stayed “constant and comfortably positive”. Likewise, economist Ian Mulheirn compared official data on the number of dwellings and the number of households in 2017. Based on these figures he concluded that, for England, “while there were 660,000 more houses than households in 1996, that surplus had almost doubled to 1.25 million by March last year [2017]”.¹³ Neither did Ian Mulheirn find “much evidence” for supply shortages at a local level.

Nevertheless, writing in the *Financial Times* in 2017, Chris Giles found “the argument that there is nothing broken in Britain’s housing market remains unpersuasive”.¹⁴ He pointed out, for example, that the supply surplus may in part be a result of households which would have formed but could not afford to: for example, children living with their parents until an older age, or more people sharing properties.

Even amongst those who do believe that there is a housing crisis, there is still uncertainty about the numbers of new properties which need to be built. Kate Barker, who wrote an influential report on housing supply in 2004 which was said to have “set the tone for housebuilding targets ever since”,

⁹ Department for Communities and Local Government, [Fixing Our Broken Housing Market](#), February 2017, Cm 9352, p 5.

¹⁰ House of Lords Economic Affairs Committee, [Building More Homes](#), 15 July 2016, HL Paper 20 of session 2016–17.

¹¹ *ibid*, pp 3–4.

¹² Andrew Lilico, [‘There is No UK “Housing Crisis” and There Never Was One’](#), CapX, 29 April 2015.

¹³ Ian Mulheirn, [‘Two Housing Crises’](#), Resolution Foundation, 23 March 2018.

¹⁴ Chris Giles, [‘However You Analyse It, Housing in Britain is a Mess’](#), *Financial Times* (£), 9 November 2017.

commented in 2017 that “I’m amazed people still use my numbers”.¹⁵

Revised Statistics on Household Formation

When projecting the need for housing in the future, a key factor is the rate of household formation.¹⁶ For example, the housing supply position will become tighter in any period if the number of households increases by more than the number of new homes built, net of any homes removed from the housing stock. Until recently, the Office for National Statistics (ONS) was projecting an increase of around 210,000 households per year in England.¹⁷ However, in its most recent forecast, the ONS has revised down this estimate to 159,000 per year.¹⁸ All other things being equal, this would reduce the number of new homes required by 51,000 per year.

In comparison, official statistics show that the average number of net additional dwellings in England per year in the ten years to 2016/17 was 166,248.¹⁹ Therefore, the recent revision to the household formation statistics would mean that England was building more new homes (on average, over the last ten years) than there were new households forming, rather than fewer new homes than households, as would have been the case with the previous statistics.

2.2 Affordability

Affordability of Properties to Rent

The white paper *Fixing Our Broken Housing Market* also considered issues of affordability, looking separately at homes for rent and purchase. Looking at the rental market, for example, it stated that “the average couple in the private rented sector now send roughly half their salary to their landlord each month”.²⁰ Kate Barker and Neal Hudson also demonstrated that increases in rents in England exceeded average earnings between 2005 and 2017.²¹

¹⁵ Tim Wallace, [‘Homes Target May Never Be Met, Warns Housing Guru’](#), *Telegraph* (£), 8 October 2017.

¹⁶ Kate Barker and Neal Hudson, [‘Will Building More Homes Help to Reduce Housing Costs?’](#), Resolution Foundation, 21 November 2017.

¹⁷ Office for National Statistics, [‘Household Projections in England: 2016-based’](#), 20 September 2018.

¹⁸ *ibid.*

¹⁹ Department for Communities and Local Government, [‘Housing Supply: Net Additional Dwellings, England: 2016/17’](#), 16 November 2017, p 3.

²⁰ Department for Communities and Local Government, [‘Fixing Our Broken Housing Market’](#), February 2017, Cm 9352, p 10.

²¹ Kate Barker and Neal Hudson, [‘Will Building More Homes Help to Reduce Housing Costs?’](#), Resolution Foundation, 21 November 2017.

However, Andrew Lilico has challenged the idea that rents have become less affordable over time. He compared the ONS's series on private rental costs with inflation (measured by the Consumer Prices Index). This, he said, shows that "far from renting becoming ever more unaffordable, exactly the opposite has happened over the past ten years—rents have not even kept pace with inflation".²²

Similarly, Ian Mulheirn has challenged the Barker and Hudson analysis on the basis that household disposable income, not average earnings, should be the appropriate comparator.²³ He found that on any of three different official measures of household disposable incomes, they have grown "comfortably" faster than housing costs since 2005, either on a national or local basis.²⁴

In response to this, Chris Giles noted that flat average real rents can hide "huge variations in housing costs", and also that while rents may not have risen rapidly, "they are high and many more people are having to pay them than a generation ago".²⁵ He quoted Resolution Foundation research suggesting that private rents account for 35 percent of the incomes of those born from 1965 onwards. Finally, he argued that it is now more difficult for people to move from renting to buying which, he stated, "is traditionally when housing costs begin to fall as a share of income".²⁶

Affordability of Properties to Buy

Turning to the affordability of properties for purchase, *Fixing Our Broken Housing Market* stated that "the average house costs almost eight times average earnings—an all-time record".²⁷

This figure matches ONS data on house price affordability, which it calculated by dividing the average house price in a given area by average annual earnings in the same area. The ONS stated:

On average, full-time workers could expect to pay around 7.8 times their annual workplace-based earnings on purchasing a home in England and Wales in 2017.²⁸

²² Andrew Lilico, '[There is No UK "Housing Crisis" and There Never Was One](#)', CapX, 29 April 2015; the ten years in question being 2005 to 2014.

²³ Ian Mulheirn, '[Two Housing Crises](#)', Resolution Foundation, 23 March 2018.

²⁴ *ibid.*

²⁵ Chris Giles, '[However You Analyse It, Housing in Britain is a Mess](#)', *Financial Times* (£), 9 November 2017.

²⁶ *ibid.*

²⁷ Department for Communities and Local Government, [Fixing Our Broken Housing Market](#), February 2017, Cm 9352, p 5.

²⁸ Office for National Statistics, '[Housing Affordability in England and Wales: 2017](#)', 26 April 2018, section 1.

This ratio has risen from 3.5 twenty years previously, meaning that on average, and relative to average earnings, house prices were less than half as affordable in 2017 as they were in 1997.²⁹

A range of other statistics can be advanced to show the extent of increases in house prices. First, the ONS also publishes information on affordability specifically for first time buyers.³⁰ Based on a series of assumptions,³¹ the ONS found that the ratio of property prices to earnings for first time buyers in 2017 varied between 5.5 in the North East to 13 in London. Affordability for first time buyers has also deteriorated more quickly for London (from 3.9 in 1999 to 13 in 2017) than, for example, in the North East (from 2.5 in 1999 to 5.5 in 2017).³²

Second, separate figures from the Land Registry show that the average house price in England rose from £65,475 on 1 July 1998 to £248,611 twenty years later, on 1 July 2018.³³ This is an increase of 280% before adjusting for inflation, or approximately 162% after adjusting for inflation.³⁴

Finally, the rate of home ownership in the UK has fallen from its peak of 71% in 2003 to 63% in 2016/17—although it has been broadly flat at this level since 2013/14.³⁵ The trend has been even more marked amongst younger households. For example, home ownership in the 25–34 age range has fallen from 60% in 2003 to 37% in 2016/17.³⁶

While there is little doubt that housing for purchase has become less affordable on these measures, various commentators have queried the extent to which this matters. These arguments are explored further in section 5 of this briefing.

²⁹ Office for National Statistics, [‘Housing Affordability in England and Wales: 2017’](#), 26 April 2018, section 4.

³⁰ Office for National Statistics, [‘First-time Buyer Housing Affordability in England and Wales: 2017’](#), 25 July 2018.

³¹ *ibid*, section 3.

³² *ibid*, section 4.

³³ HM Land Registry, [‘UK House Price Index: Data Downloads July 2018’](#), 19 September 2018, Average Price.

³⁴ Using the all-items Retail Price Index (RPI) from Office for National Statistics, [‘RPI All Items Index: January 1987=100’](#), 19 September 2018, RPI All Items Index for July 1998 and July 2018.

³⁵ Ministry of Housing, Communities and Local Government, [‘Tenure Trends and Cross Tenure Analysis’](#), 12 July 2018, table FT1101(s101): Trends in Tenure.

³⁶ *ibid*; and Department for Communities and Local Government, [‘English Housing Survey 2001/02’](#), Table S106.

3. What is Affordable Housing?

3.1 Definitions of Affordable Housing

There have been a variety of attempts to define affordable housing. At the most general level, in 2006, the House of Commons Office of the Deputy Prime Minister: Housing, Planning, Local Government and the Regions Committee stated that it was “subsidised housing that meets the needs of those who cannot afford secure decent housing on the open market either to rent or buy”.³⁷

An official government definition was contained in the glossary to the recently revised National Planning Policy Framework (NPPF). Here, ‘affordable housing’ was defined broadly as:

Housing for sale or rent, for those whose needs are not met by the market (including housing that provides a subsidised route to home ownership and/or is for essential local workers).³⁸

However, the NPPF went on to specify a further series of conditions which housing also had to meet to be ‘affordable’. Examples were that the rent or purchase price must be reduced by at least a specified amount, or that the property was under a scheme such as shared ownership or equity loan. These are discussed further in section 3.2 of this briefing.

Other definitions combine housing costs with other variables which affect households. For example, the thinktank NatCen Social Research put forward what it calls a ‘residual income approach’. This stated that housing is affordable if a household can pay for its housing, but also be able to afford to meet “other basic or essential needs”, as captured in a concept called the ‘minimum income standard’.³⁹ The Labour Party has also stated that it would introduce a “legal definition” of affordability which took into account local incomes and residual household incomes.⁴⁰

Likewise, the Institute for Public Policy Research has argued that “a universally understood and clear measure of affordability should be developed, linked to earnings, and applied transparently for every affordable housing product”.⁴¹

³⁷ House of Commons Office of the Deputy Prime Minister: Housing, Planning, Local Government and the Regions Committee, [Affordability and the Supply of Housing](#), 20 June 2006, HC 703-I of session 2005–06, p 5.

³⁸ Ministry of Housing, Communities and Local Government, [National Planning Policy Framework](#), July 2018, Cm 9680.

³⁹ Lydia Marshall, ‘[Defining and Measuring Housing Affordability in the Private Rented Sector](#)’, NatCen Social Research, 17 October 2016.

⁴⁰ Labour Party, [Housing for the Many: A Labour Party Green Paper](#), April 2018, p 3.

⁴¹ Darren Baxter and Luke Murphy, [Priced Out? Affordable Housing in England](#), Institute for Public Policy Research, November 2017, p 4.

Another suggestion which combines factors other than just housing costs has been proposed by Housing Association chief executive Brian Cronin.⁴² He argued that other local factors should be considered, such as “a healthy jobs market, wages that meet the local cost of living and decent state schools”. He suggested that when these factors were taken into account, some areas with superficially low housing costs remained “difficult to live in for average earners” and therefore were “most in need of new affordable homes”. By contrast, some areas with high housing costs were “some of the best places to live” for people on average incomes.⁴³

3.2 Types of Affordable Housing Under the Current System

Social Housing

Social housing has been defined as “housing developed with an element of government subsidy (grant) and let at sub-market rents by local authorities or housing associations”.⁴⁴

According to a recent government green paper on social housing, “nearly one in five of English homes are owned by housing associations or local councils”.⁴⁵ The green paper also stated that “social housing remains central to our supply ambitions [of building 300,000 homes per year by the mid-2020s]”.⁴⁶

The green paper outlined a number of proposals to increase social housing supply, including: helping local authorities build more by allowing them to borrow and providing more flexibility over the use of ‘Right to Buy’ receipts;⁴⁷ providing longer term certainty to housing associations to encourage them to build more; unlocking additional supply through “community land trusts and local housing companies”; and helping people progress from affordable home ownership schemes to owning outright.⁴⁸

The Government has recently announced that it would remove the cap which limits the amount that local authorities can borrow against their housing assets to fund new developments, suggesting that this could deliver

⁴² Brian Cronin, ‘[Want to Solve the Affordable Housing Crisis? Let Housing Associations Build](#)’, CityMetric, 2 May 2018.

⁴³ *ibid.*

⁴⁴ House of Commons Library, [What is Affordable Housing?](#), 21 September 2018, p 5.

⁴⁵ Ministry of Housing, Communities and Local Government, [A New Deal for Social Housing](#), August 2018, Cm 9671, p 5.

⁴⁶ *ibid.*, p 57.

⁴⁷ These are the funds raised by local authorities through sales of council homes. Certain restrictions currently apply to the use of these funds. There is an ongoing consultation to reform these rules (Ministry of Housing, Communities and Local Government, [Use of Receipts from Right to Buy Sales](#), August 2018).

⁴⁸ Ministry of Housing, Communities and Local Government, [A New Deal for Social Housing](#), August 2018, Cm 9671, p 58.

“up to an estimated 10,000 additional homes per year”.⁴⁹ Councils in “areas of high affordability pressure” would also be able to bid for a share of £1 billion extra borrowing. The announcement was welcomed by representatives of local authorities, builders and lenders, but criticised by the Institute of Economic Affairs because it would increase public debt, and that the private sector could provide more efficient solutions.⁵⁰

The Government has also recently consulted on plans to allow providers of social housing to increase rents by 1 percent above inflation per annum to recognise “the need for a stable financial environment to support the delivery of new homes”.⁵¹

Reduced Rents and ‘Build to Rent’

The official definition of ‘affordable rent’ is that it is at least 20 percent below local market rent (or in other words, it is set at a maximum of 80 percent of local market rent). This definition was first introduced by the Coalition Government in 2010.⁵² It is now contained in the NPPF.⁵³ This definition is used, for example, by the Government to assess whether landlords are offering an appropriate proportion of affordable housing (see section 7.2 of this briefing).

It has been argued that the maximum rent under this definition is too high, leading to rents which are not actually affordable for some tenants. The Joseph Rowntree Foundation (JRF) stated that:

The current model of affordable rent housing, at up to 80 percent of market value, fails to insulate people from the broken housing market and is not affordable in high cost parts of the country. JRF estimates the implementation of affordable rents will see 1.3 million more people in poverty in 2040 and place huge additional pressures on the housing benefit bill.⁵⁴

Likewise, in May 2018, Brendan Sarsfield, chief executive of the Peabody Housing Association, announced that Peabody would cut its rental rates to below the ‘affordable rent’ maximum. He stated that the difference between

⁴⁹ Ministry of Housing, Communities and Local Government, [‘Government Announces New Generation of Council Housing’](#), 3 October 2018.

⁵⁰ John Murray, [‘Social Housing Speed Read: Cancelling the Cap: Removing the Limit on Local Authorities Borrowing Against Their Housing Revenue Account’](#), Ward Hadaway, 8 October 2018.

⁵¹ Ministry of Housing, Communities and Local Government, [‘Rents for Social Housing From 2020–21: A Consultation Paper’](#), September 2018, p 7.

⁵² House of Commons Library, [‘What is Affordable Housing?’](#), 21 September 2018, p 6.

⁵³ Ministry of Housing, Communities and Local Government, [‘National Planning Policy Framework’](#), July 2018, Cm 9680, p 64.

⁵⁴ Brian Robson, [‘Using the Social Housing Green Paper to Boost the Supply of Low-cost Rented Homes’](#), Joseph Rowntree Foundation, 18 February 2018.

rent charged at Peabody's standard rate of 65% of market rent, and the 'affordable rent' maximum of 80% of market rent could be around £80 a week.⁵⁵

The Mayor of London, Sadiq Khan, put forward the concept of a 'London affordable rent'. In doing so, the Greater London Authority said:

The Mayor does not consider 80 percent of market rents to be genuinely affordable in most parts of London and he therefore expects most homes let for London affordable rent to be substantially below this level.⁵⁶

London affordable rent is set as a benchmark in £ terms, and does not vary by borough. It is intended to be comparable to social rents for new socially rented units.⁵⁷ The Mayor's 2018 housing strategy states the he will use "his funding and planning powers to deliver homes based on social rent levels (which includes those for 'London affordable rents')".⁵⁸

The Government has expressed support for a new sector of the market, described in a consultation response as "large scale developments purpose built for private rent, commonly known as 'build to rent'".⁵⁹ The Government believe this may generate up to 15,000 new homes per annum.⁶⁰ Specific provisions for build to rent appeared in the new NPPF,⁶¹ while more detailed guidance on the operation of such schemes was contained in updated associated planning practice guidance.⁶²

Reduced Sale Prices and 'Starter Homes'

The NPPF defined low cost homes as being "at a price equivalent to at least 20 percent below local market value".⁶³ However, it also recognised other "affordable routes to home ownership", such as "shared ownership, relevant equity loans [...] and rent to buy". There may also be specifications on, for example, maintaining affordability for future eligible households, or for

⁵⁵ Gavriel Hollander, '[Exclusive: Peabody Plans to Stop Charging Affordable Rent](#)', Inside Housing, 2 May 2018.

⁵⁶ Mayor of London, '[Homes for Londoners: Affordable Homes Programme 2016–21 Funding Guidance](#)', November 2017, p 7.

⁵⁷ Gavriel Hollander, '[Exclusive: Peabody Plans to Stop Charging Affordable Rent](#)', Inside Housing, 2 May 2018.

⁵⁸ Mayor of London, '[London Housing Strategy](#)', May 2018, p 100.

⁵⁹ Department for Communities and Local Government, '[Planning and Affordable Housing for Build to Rent: Summary of Consultation Responses](#)', August 2017, p 4.

⁶⁰ *ibid.*

⁶¹ *ibid.*, p 7.

⁶² Ministry of Housing, Communities and Local Government, '[Planning Practice Guidance: Build to Rent](#)', 13 September 2018.

⁶³ Ministry of Housing, Communities and Local Government, '[National Planning Policy Framework](#)', July 2018, Cm 9680, p 64.

receipts to be recycled for further affordable homes or refunded.⁶⁴

Another form of affordable housing included in the NPPF was ‘starter homes’.⁶⁵ Starter homes were initially announced in December 2014 by the Coalition Government and were intended to deliver 100,000 homes, discounted by at least 20 percent from the market rate, for first-time buyers.⁶⁶ The 2015 Conservative Party general election manifesto included a commitment to double this target, to provide 200,000 homes by 2020, “exclusively for first-time buyers under 40”.⁶⁷ Maximum prices are £250,000 or, in London, £450,000.⁶⁸ There would also be a household income cap of £80,000 (£90,000 in London), together with various other conditions (for example on resale, letting and minimum mortgage levels).⁶⁹ While provisions for starter homes were contained in the Housing and Planning Act 2016, these are not yet in force.⁷⁰ the Government website which promotes home ownership stated that “the scheme has not started yet but planning is well underway”.⁷¹

Starter homes have attracted two different types of criticism. First, that they may crowd out other forms of affordable housing (particularly, rented accommodation) as they would be likely to be more profitable to developers. This could potentially undermine local housing plans.⁷² Second, it has been questioned whether homes at a 20 percent discount are genuinely affordable. Housing charity Shelter has argued that such homes would be unaffordable for families on the national living wage in 98 percent of local authority areas, and unaffordable for families on average wages in 58 percent of local authority areas. However, the Government has dismissed these objections, arguing that Shelter’s methodology was flawed.⁷³

Right to Buy

The right to buy scheme allows eligible council tenants in England to buy their home with a discount of up to £80,900 (£108,000 in London).⁷⁴ The

⁶⁴ Ministry of Housing, Communities and Local Government, [National Planning Policy Framework](#), July 2018, Cm 9680, p 64.

⁶⁵ *ibid.*

⁶⁶ House of Commons Library, [Starter Homes for First-time Buyers \(England\)](#), 18 May 2018, p 3.

⁶⁷ Conservative Party, [Conservative Party Manifesto 2015](#), April 2015, p 51.

⁶⁸ HM Government Own Your Home, ‘[Starter Homes](#)’, accessed 15 October 2018.

⁶⁹ House of Commons Library, [Starter Homes for First-time Buyers \(England\)](#), 18 May 2018, p 4.

⁷⁰ *ibid.*, p 3.

⁷¹ HM Government Own Your Home, ‘[Starter Homes](#)’, accessed 15 October 2018.

⁷² House of Commons Communities and Local Government Committee, [Department for Communities and Local Government’s Consultation on National Planning Policy](#), 1 April 2016, HC 703 of session 2015–16, pp 17–18.

⁷³ House of Commons Library, [What is Affordable Housing?](#), 21 September 2018, p 20.

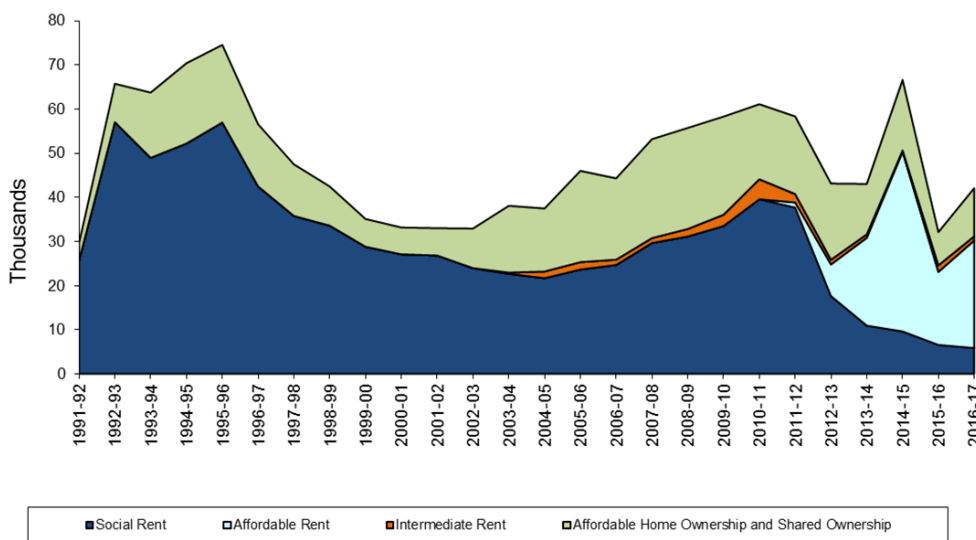
⁷⁴ HM Government Right to Buy, ‘[Your Right to Buy](#)’, accessed 16 October 2018.

Government has also proposed extending right to buy to housing association tenants, and a pilot scheme is currently in place.⁷⁵ By contrast, the Labour Party has adopted a policy of suspending right to buy to “stop the sell-off of 50,000 social rented homes a year”.⁷⁶

3.3 Statistics on New Affordable Homes by Type of Scheme

Figure 1 shows annual additions of affordable homes to the housing stock in England since 1991/92, by type of affordable home scheme. It demonstrates how the overall number of new affordable homes has fluctuated over the period. Looking at types of housing, the most noticeable change is a sharp drop in social housing (the darkest and lowest section on the chart) since 2011/12, with ‘affordable rent’ housing (the lightest section, second from bottom) increasing in its place.

Figure 1: Additional Affordable Homes by Type of Scheme, England⁷⁷



4. Arguments in Favour of Affordable Housing

The Joseph Rowntree Foundation (JRF) expressed the general case for more affordable housing both for purchase and for rent, arguing that the latter was a necessity for many families:

Many people aspire to home ownership, and it is understandable that the Government wants to provide pathways for people on low to middling incomes in high-cost areas to achieve that through shared

⁷⁵ House of Commons Library, [Introducing a Voluntary Right to Buy for Housing Association Tenants in England](#), 16 August 2018, p 3.

⁷⁶ Labour Party, [Housing for the Many: A Labour Party Green Paper](#), April 2018, p 3.

⁷⁷ Ministry of Housing, Communities and Local Government, [‘Live Tables on Affordable Housing Supply: Table 1000’](#), 19 June 2018, chart 1004.

ownership. But this option is still out of reach for many families because of their circumstances. At the point of entering social housing, just 3 percent of new social tenants could afford even low-cost home ownership options like shared ownership or starter homes instead. These families need low-cost rented housing—that is homes let at social rents, or similar levels, which are affordable to local workers on low earnings.

We do not consider the ‘affordable rent’ model, where rents can reach up to 80 percent of local market rents, to be low-cost rented housing.⁷⁸

The JRF also drew a link between high housing costs and poverty. It stated that “poverty rates for working-age adults in the UK are 6 percentage points lower before accounting for housing costs”, while in London, “poverty rates more than double after accounting for housing costs”.⁷⁹

The JRF also argued that the current shortage of genuinely affordable housing “places significant additional demands on the housing benefit bill”. It stated that, even though housing benefit (HB) cost £23.4 billion in Great Britain in 2016/17, because of restrictions on HB it does not fully cover rent for “some 90 percent of low-income private renters”.⁸⁰ The JRF stated that “investing in 80,000 affordable homes per annum could reduce the housing benefit bill by £5.6 billion per annum by 2040”.⁸¹

Like the JRF, the Institute for Public Policy Research (IPPR) reiterated that the tenure mix in affordable housing was important. It stated:

We would stress that it is not just the number built but also the balance of tenures and affordability which need to be thought through for an effective housing strategy [...]

Our overall impression is that [political] parties remain too strongly wedded to owner occupation and particularly to the belief that they will be able to provide a significant response to the aspirations of first-time buyers [...] It is, we recognise, the tenure of choice for most of our fellow citizens but it simply cannot provide the number of homes needed or at a price which can meet this aspiration and it is time to be honest about that.⁸²

⁷⁸ Brian Robson, ‘[Using the Social Housing Green Paper to Boost the Supply of Low-cost Rented Homes](#)’, Joseph Rowntree Foundation, 18 February 2018.

⁷⁹ *ibid.*

⁸⁰ For a more detailed explanation of this point, see: Chartered Institute of Housing, [Missing the Target? Is Targeted Affordability Funding Doing Its Job?](#), August 2018.

⁸¹ Brian Robson, ‘[Using the Social Housing Green Paper to Boost the Supply of Low-cost Rented Homes](#)’, Joseph Rowntree Foundation, 18 February 2018.

⁸² Michael Lyons et al, [What More Can Be Done to Build the Homes We Need?](#), Institute for Public Policy Research, June 2017, pp 8–9.

The House of Commons Treasury Committee raised similar concerns in a report in 2016. It stated:

The committee is concerned about the focus of the Government’s housing policy. Addressing the ‘home ownership crisis’ must not come at the expense of a shortage of homes to rent. The Chancellor should make clear what he intends to do to help those who want or need to rent, and to ensure a healthy supply of properties in the private rented sector.⁸³

In a 2016 report focusing on the position in London, the Centre for Economics and Business Research put a different case for greater provision of affordable housing.⁸⁴ Its key argument was that “without affordable housing, we risk losing the people our analysis shows are doing important jobs which keep the city running”.⁸⁵ It pointed to vacancy rates in nursing posts which were twice the national average, and shortages of skilled staff in the London Ambulance Service and the construction industry.⁸⁶

Ian Mulheirn also favoured an increase in affordable housing. Using arguments outlined in section 6.2 of this briefing, he concluded that increasing the overall supply of houses is unlikely to solve the problems in the housing market. Therefore, he favoured targeting the specific causes (such as a shrinking social rented sector and weak wage growth for young people) more directly, via affordable housing.⁸⁷

A similar conclusion was reached by the Labour Party in its 2018 paper on the housing market:

Simply building more market price homes isn’t enough to help many of those faced with the cost of housing crisis because this is only likely to influence prices over the long-term [...] We have to build more affordable homes to make homes more affordable.⁸⁸

5. Arguments Against Affordable Housing and Alternative Policy Prescriptions

One argument against creating affordable housing stems from economic fundamentals and was expressed in an article by Mark Perry for the

⁸³ House of Commons Treasury Committee, [Spending Review and Autumn Statement 2015](#), 12 February 2016, HC 638 of session 2015–16, p 33.

⁸⁴ Centre for Economics and Business Research, [The Business Case for Affordable Housing](#), July 2016.

⁸⁵ *ibid*, p 6.

⁸⁶ *ibid*.

⁸⁷ Private correspondence with the author, 12 October 2018.

⁸⁸ Labour Party, [Housing for the Many: A Labour Party Green Paper](#), April 2018, p 2.

Foundation for Economic Education.⁸⁹ The article was written in an American context and related to rented housing and rent controls, but his basic argument would apply to any price restrictions on housing:

Policymakers should remember that a price is just the intersection of supply and demand. If you alter the price, but don't alter the supply or the demand, the problem doesn't go away; rationing just shows up in different forms. There will still be too many people who cannot find housing in your area.⁹⁰

Mark Perry (and a correspondent whom he quoted) suggested that rent controls made issues of housing scarcity worse rather than better. In a free market, a price control would increase demand above what it would otherwise be (the article states, “who would not want to live in New York City in a \$600-a-month apartment?”). However, he argued, controls also reduce supply “because they decrease the incentive to build”, and land is diverted to other, non-controlled, uses. He stated that “you can artificially restrict the amount of rent a landlord can legally charge [...] but you cannot force developers, builders and landlords to build or supply more rental housing in future”. He then suggested that in such situations, rations re-appear, but in non-price forms; for example, waiting lists. He concluded that “price controls aren't the answer. Building more housing is the only real solution to increase the supply of affordable housing”.⁹¹

The Institute of Economic Affairs advanced a similar argument. They agreed that there is a housing crisis in the UK, and described it as having “become the single most important driver of poverty in the UK”.⁹² It suggested that the main cause is a “highly restrictive planning system, and well-organised Nimby⁹³ groups who are willing, and able, to exploit that system in their favour”.⁹⁴ It therefore argued that affordable housing, at least in the form of rent controls, would not solve the problem. It also stated, quoting an earlier study, that “the economics profession has reached a rare consensus: rent control creates many more problems than it solves”.⁹⁵

Andrew Lilico's arguments, set out in section 2.2 of this briefing, did not lead him to argue against affordable housing as such. However, as set out above,

⁸⁹ Mark Perry, [‘Want More Affordable Housing? Build More Housing, and Don't Impose Rent Controls’](#), Foundation for Economic Education, 20 February 2018, pp 8–9.

⁹⁰ *ibid.*

⁹¹ *ibid.*

⁹² Kristian Niemietz, [The Key to Affordable Housing](#), Institute of Economic Affairs, September 2016, p 9.

⁹³ Nimby is an abbreviation for “not in my back yard”, meaning “a person who does not want something unpleasant to be built or done near where they live” (Cambridge Dictionary, [‘Nimby’](#), accessed 17 October 2018).

⁹⁴ Kristian Niemietz, [The Key to Affordable Housing](#), Institute of Economic Affairs, September 2016, p 13.

⁹⁵ *ibid.*, p 18.

he concluded that there was no crisis of affordability in rents, and, he continued, there was also not in house purchasing.⁹⁶ This, he stated, was because people do not have to own their homes (in the same way, he said, as that they do not have to own a Ferrari or a yacht). As long as rents were ‘affordable’, he believed there was not a “social problem in its own right”.⁹⁷ Therefore, in his view, there was no problem to which affordable housing would be the answer.

Others have also contended that the sharp rise in house prices in recent years is not indicative of an imbalance of underlying supply and demand for housing, which might be corrected via building more houses, whether affordable or not.⁹⁸ Instead, they argued that this has resulted from the potential for property to act as a financial asset, particularly in economic conditions which favour such investments, and with easily available mortgage credit.⁹⁹ Columnist Matthew Parris advanced a similar argument, and suggested that it made policy prescriptions for the housing market harder rather than easier. He concluded:

A shortage of homes suggests its own solution: build more homes. We know how to do that. But a distorted pricing structure that skews the housing market to the needs of investors, turns homes into savings vehicles and excludes millions from aspiration and security [...] does anyone know a free-market answer to that? I don't.¹⁰⁰

Addressing this final point, political economist Ann Pettifor has advanced possible solutions to the issue of house prices being driven by speculative and investment forces. These included: a property speculation tax; a ‘Tobin tax’ on transactions; and a greater supply of assets which could act as alternatives to property.¹⁰¹

6. Other Policies to Promote Home Ownership and Affordable Housing

6.1 Policies Affecting Housing Demand

Government policies towards housing and affordable housing can affect both the demand and supply sides of the market. Considering, first, the demand side, the Government has in place financial supports and incentives. The

⁹⁶ Andrew Lilico, [‘There is No UK “Housing Crisis” and There Never Was One’](#), CapX, 29 April 2015.

⁹⁷ *ibid.*

⁹⁸ For example: Ann Pettifor, [‘The Financialisation of the Housing Market’](#), 7 February 2018.

⁹⁹ Andrew Lilico, [‘There is No UK “Housing Crisis” and There Never Was One’](#), CapX, 29 April 2015.

¹⁰⁰ Matthew Parris, [‘There is No Housing Crisis. It Would be Easier if There Were’](#), *Spectator*, 10 February 2018.

¹⁰¹ Ann Pettifor, [‘The Financialisation of the Housing Market’](#), 7 February 2018.

Royal Town Planning Institute (RTPI) listed the following, and also provided a summary of the main features of each:

- ‘Help to Buy Equity Loan’ (including ‘London Help to Buy’);
- ‘Help to Buy ISA’;
- ‘Help to Buy Mortgage Guarantee’; and
- ‘Shared Ownership’.¹⁰²

In addition, the 2017 Autumn Budget announced the removal of stamp duty for first time buyers on the first £300,000 of any purchase up to £500,000.¹⁰³

The Institute for Fiscal Studies (IFS) has, however, argued that demand-side policies alone may be counterproductive. In its 2018 green budget, it said:

Without greater elasticity of supply, policies to advantage young adults in the housing market will in part push up house prices and will not help (and could even harm) those young adults who will never own a home.¹⁰⁴

The IFS called for an easing of the planning restrictions which, it said, “make it hard for individuals and developers to build houses in response to demand”.¹⁰⁵

6.2 Policies Affecting Housing Supply

Increasing the Overall Supply of Homes

Turning to the supply side, if it is accepted that there is a ‘housing crisis’, one proposed solution is to increase the overall supply of homes (rather than affordable homes specifically). In March 2018, the Prime Minister, Theresa May, stated that “to stop the seemingly endless rise in house prices, we simply have to build more homes—especially in the places where un-affordability is greatest”.¹⁰⁶ This followed the announcement in the 2017 Autumn Budget of a target to deliver “300,000 net additional homes a year on average by the mid-2020s. The biggest annual increase in housing

¹⁰² Royal Town Planning Institute, [‘The Government’s Housing Policy for England’](#), November 2016, pp 6–7.

¹⁰³ For details of the ‘Help to Buy’ scheme see: HM Government, [‘Help to Buy’](#), accessed 12 October 2018, and of the stamp duty relief see HM Treasury, [‘Stamp Duty Land Tax Relief for First-time Buyers: Autumn Budget 2017 Brief’](#), 22 November 2017.

¹⁰⁴ Institute for Fiscal Studies, [‘Barriers to Home Ownership for Young Adults’](#), 8 October 2018.

¹⁰⁵ *ibid.*

¹⁰⁶ Prime Minister’s Office, [‘Prime Minister’s Address in East London on Making Housing Fairer’](#), 5 March 2018.

supply since 1970".¹⁰⁷

In March 2018, the then Minister for Housing, Dominic Raab, in evidence to the House of Commons Housing, Communities and Local Government Committee, linked the overall housebuilding target more closely with the issue of affordability:

The 300,000 target by the mid-2020s is the point at which we think that the affordability of homes will come down for the nurse, the teacher, and those on low and middle incomes, and particularly for those trying to get on the housing ladder for the first time. That is the significance of it.¹⁰⁸

However, the effectiveness of increasing the overall housing supply in this way has been questioned. Ian Mulheirn suggested that even building 300,000 homes per year for twenty years would not have a large effect on house prices:

The net effect [...] is that house prices would be 6% lower in real terms by 2038, all else equal. In other words the Government's model suggests that even achieving record levels of net housing additions, sustained over two decades, will do very little to reverse the 150% house price explosion of the past 20 years.¹⁰⁹

This conclusion was based on government analysis on the impact of various factors on house prices. The two relevant conclusions from this analysis were: that if the number of households increased by 1%, house prices would increase by about 2%; and if the housing stock increased by 1%, house prices would fall by around 2%.¹¹⁰

Increasing the Supply of Affordable Homes

Government policy, as expressed in the NPPF, is that, as a default overall requirement, 10 percent of any development should be designated as affordable.¹¹¹ However, this has met with disagreement on various grounds. For example, the Local Government Association argued that no central

¹⁰⁷ HM Treasury, '[Autumn Budget 2017: Philip Hammond's Speech](#)', 22 November 2017.

¹⁰⁸ House of Commons Housing, Communities and Local Government Committee, [Oral Evidence: Ministry of Housing, Communities and Local Government Housing Prices](#), 12 March 2018, Q3.

¹⁰⁹ Ian Mulheirn, '[What Would 300,000 Houses Per Year Do to Prices?](#)', Medium, 20 April 2018.

¹¹⁰ Ministry of Housing, Communities and Local Government, [Analysis of the Determinants of House Price Changes](#), 13 April 2018. The paper suggests that the analysis "should be treated cautiously and used primarily to draw stylised inferences".

¹¹¹ House of Commons Library, [What is Affordable Housing?](#), 21 September 2018, p 11. A series of exceptions to the default requirement are set out in the briefing.

target should be specified. Instead, it believed that such judgements should be left to local authorities, who would be best placed to consider local needs (including the split between different tenure types in the affordable sector of the market).¹¹²

A different criticism was advanced by the IPPR, which favoured more ambitious targets on the basis that affordable national housing provision was “falling short in 92 percent of local authorities”.¹¹³ It recommended:

[...] a stronger approach at a national level, ensuring that a threshold of 35 percent for affordable housing is applied to all private developments, with a higher threshold of 50 percent on all public land, in line with the approach adopted by the Mayor of London.¹¹⁴

A key policy for delivering the 10 percent target is an obligation under the Town and Country Planning Act 1990 (as amended), known as a ‘section 106’ (s106) agreement.¹¹⁵ S106 agreements “make a development proposal acceptable in planning terms, that would otherwise not be acceptable”.¹¹⁶ In the context of affordable housing, this is likely to mean that a developer includes a provision for affordable housing in their development proposal. A House of Commons Library briefing reported statistics showing that 49 percent of completions of affordable houses were delivered via s106 agreements in 2017/18.¹¹⁷

In January 2018, the Government announced the launch of a new national housing agency, Homes England, “as one of the key steps towards delivering the homes the country needs”.¹¹⁸ It stated that the new body would bring together “existing planning expertise and new land buying powers”, would support “smaller and more innovative house builders” and “resource brownfield sites from across the country”.

The Government has also commissioned a review (the ‘Letwin Review’) to investigate the causes of unused planning permissions, also described as the “gap” between planning permissions and housing starts.¹¹⁹ According to

¹¹² House of Commons Library, [What is Affordable Housing?](#), 21 September 2018, p 11.

¹¹³ Darren Baxter and Luke Murphy, [Priced Out? Affordable Housing in England](#), Institute for Public Policy Research, November 2017, p 3.

¹¹⁴ *ibid*, p 4.

¹¹⁵ Royal Town Planning Institute, [‘The Government’s Housing Policy for England’](#), November 2016, p 11.

¹¹⁶ Local Government Association Planning Advisory Service, [‘S106 Obligations Overview’](#), accessed 16 October 2018.

¹¹⁷ House of Commons Library, [Tackling the Under-supply of Housing in England](#), 3 September 2018, p 47.

¹¹⁸ Ministry of Housing, Communities and Local Government, [‘New Housing Agency to Boost Housebuilding’](#), 11 January 2018.

¹¹⁹ Ministry of Housing, Communities and Local Government, [‘Independent Review to Tackle Barriers to Building’](#), 14 January 2018.

analysis by the Local Government Association, there were 423,000 such properties in 2016/17, and this number had risen 16 percent compared to a year earlier.¹²⁰ The draft findings of the Letwin Review suggested that the “fundamental driver” of the rate at which sites are built on is the rate at which the builder believes the homes can be sold. Moreover, the rate of completion of affordable or social housing is “constrained by the requirement for cross-subsidy from the open market housing on the site”.¹²¹ The preliminary recommendations in the draft analysis is that more variety of housing should be provided on development sites, as this will increase the rates at which houses can be sold, and hence increase the speed with which they are built.¹²² The review did not find evidence that (at least the major) house builders were ‘land banking’ (ie using unimproved land as a financial investment).¹²³

6.3 Government Financial Support

In October 2017, the Government announced an increase in funding for its affordable homes programme from £7.1 billion to £9.1 billion over the course of this Parliament.¹²⁴ The additional money would be concentrated on social housing, with the aim of creating “new generation of council and housing association homes”. The Joseph Rowntree Foundation welcomed the announcement, and its focus on social housing, but stated that “it is only expected to deliver around 5,000 additional social rented homes each year—just one-sixth of the 30,000 further affordable homes we need”.¹²⁵

In the 2017 Autumn Budget, the Chancellor of the Exchequer, Philip Hammond, stated that “over the next five years we will commit a total of at least £44 billion of capital funding, loans and guarantees to support our housing market”.¹²⁶ He went on to list a number of the categories of funding, including the housing infrastructure fund, a fund to “unlock strategic sites”, and financial guarantees to support private housebuilding.

More recently, the Prime Minister, Theresa May, announced a further £2 billion of funding for housing associations, available as far ahead as 2028/29.¹²⁷ The Prime Minister stated that this was “the first time any government has offered housing associations such long term certainty”.

¹²⁰ Isla MacFarlane, ‘[Gap Between Planning Permissions and Housing Starts Widens](#)’, Showhouse, 16 February 2018.

¹²¹ Oliver Letwin, [Independent Review of Build Out Rates: Draft Analysis](#), June 2018, p 11.

¹²² *ibid*, p 17.

¹²³ *ibid*, p 29.

¹²⁴ Department of Communities and Local Government, ‘[£2 billion Boost for Affordable Housing and Long Term Deal for Social Rent](#)’, 4 October 2017.

¹²⁵ Brian Robson, ‘[Using the Social Housing Green Paper to Boost the Supply of Low-cost Rented Homes](#)’, Joseph Rowntree Foundation, 18 February 2018.

¹²⁶ HM Treasury, ‘[Autumn Budget 2017: Philip Hammond’s Speech](#)’, 22 November 2017.

¹²⁷ Prime Minister’s Office, ‘[Prime Minister Theresa May’s Address to the National Housing Federation Summit](#)’, 19 September 2018.