



Where is housing  
heading?

**Where are we  
coming from?**

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## Where is housing heading?

### CIH begins a new series of policy discussions on the key issues facing housing over the next five years

Two years after the coalition government published its housing strategy *Laying the Foundations*, and 18 months ahead of the General Election, CIH is taking the opportunity to pause and consider developments since 2010: where we have ended up, what's worked, what hasn't, what we've learnt about the policy positions of the main parties and where things might be heading next.

We've commissioned a series of leading commentators to give us their views on these and other issues across different policy areas over the coming months. We kick off the series with an assessment from Jules Birch of what has happened across the housing industry. In an opening pair of essays, he looks first at what the coalition government said it would do in 2010 and what has actually resulted, and in the second essay speculates on the immediate future and sets the scene for coverage of more detailed topics by subsequent authors.

We hope you will enjoy the essays and that they will stimulate debate over the critical period we are about to enter.



## 1. Where are we coming from?

### Introduction

Seen from the perspective of 2013, what's surprising is how little of what has happened in housing since the 2010 election was foreshadowed at the time. The campaign took place in the wake of the global financial crisis and the credit crunch. It was clear that whichever party won would cut public spending and that the real question would be how quickly the cuts would happen. Yet while these parameters were clear, exactly what this would mean in individual policy areas like housing was never spelt out.

Following the formation of the coalition it appeared that "localism" would be a key ingredient in the glue binding the two sides together. The [Programme for Government](#) published in May 2010 adopted most of the planning reforms proposed by the Conservatives plus other key priorities such as abolishing Home Information Packs and ending "garden grabbing". Social housing did not feature beyond pledges to "review the unfair Housing Revenue Account", create new trusts to make it simpler for communities to provide homes for local people and promote shared ownership. A [Conservative manifesto](#) pledged to "respect the tenures and rents of social housing tenants" was not mentioned.

In their foreword, David Cameron and Nick Clegg said they had "agreed to sweeping reform of welfare". There would be "difficult decisions" in the months ahead but they would "ensure that fairness is at the heart of those decisions so that all those most in need are protected". The document pledged to "investigate how to simplify the benefit system in order to improve incentives to work" but was completely silent on housing benefit.

### The context

The aftermath of the financial crisis was always going to mean a radically different economic context for housing. What had been a crisis of banks and private debt became one of governments and public debt under the coalition. The coalition's priority of cutting the deficit meant cuts in social housing investment, in funding for local authorities generally and in housing benefit. However, while the context for austerity was the same across the UK, there have been important differences in the way it has been applied within the constituent nations, indicating that the more radical reforms undertaken in England have been about more than just economics.

As the crisis took hold in 2008 the big fear was a repeat of the housing market crash of the early 1990s. According to the [Nationwide index](#), house prices did fall by 19 per cent in nominal terms between 2007 Q3 and 2009 Q1 and in real terms are currently 23 per cent below their peak. Repossessions did rise significantly in 2008 and 2009. However, where interest rates rose to 15 per cent on Black Wednesday in 1992, this time the Bank of England cut rates to a historic low of just 0.5 per cent and began a programme of quantitative easing. The combined effect was to drive down mortgage costs (a process enhanced by the Funding for Lending scheme) and to protect and then inflate asset prices. In parts of the market, notably new-build property in central London, this was accentuated by investors from overseas who saw residential property as a safe haven from financial turmoil elsewhere.

This has changed the dynamics of the UK housing market in important respects. A rough and ready calculation based on Bank of England figures suggests that existing homeowners with a mortgage have seen their borrowing costs fall from 5.9 per cent at the time of the credit crunch to 3.3 per cent now ([CML](#)



[statistics](#) Table IR6: mortgage interest rates on outstanding loans). With total outstanding mortgage debt of £1.2 trillion (Table MM4: lending secured on dwellings, balances outstanding) that implies they are saving around £30 billion a year. That total will also be unevenly distributed since owners with substantial equity in their property have been able to remortgage to even lower rates. The buy to let sector, which had seemed set to be a primary victim of the credit crunch, has instead seen the number of loans outstanding expand by 50 per cent since 2007 (Table MM6: Buy to let: mortgage market summary).

In contrast, accessing the market became significantly more difficult for anyone without a large deposit. Mortgages at higher loan-to-value ratios became more expensive and difficult if not impossible to find. House prices remained out of reach and significantly overvalued against earnings and rents. If existing owners and landlords were the unexpected beneficiaries of the crisis, the immediate losers were “Generation Rent”, hundreds of thousands of people stuck as tenants with little prospect of saving enough for a deposit on a mortgage.

Meanwhile continuing recession, stagnation in real wages and rising rents brought with them a surge in the number of households reliant on housing benefit. The number of claimants in Britain [rose by 900,000 between November 2008 and February 2013](#) to top five million. Two-thirds of this increase happened in the private rented sector, which now accounts for a third of all claims. The number of people in work and claiming housing benefit rose from 430,000 to 977,000 over the same period. This surge in claimant numbers was to help fuel government demands for cuts in a housing benefit bill that was said to be “out of control”.

Trends in tenure established over the last 20 years continued under the coalition, with a historic shift from owner-occupation and social renting to private renting. Owner-occupation [has fallen steadily](#) as a proportion of homes across the UK, from over 69 per cent in 2004 to under 65 per cent by 2011, the most recent year for which UK figures are available. Within owner-occupation, the proportion owning with a mortgage had begun to fall in the mid-1990s and has declined rapidly among younger households. In contrast, the number of private rented homes has doubled since the creation of buy to let in 1996 while social renting has continued its steady decline and a shift from local authority to housing association control. For the first time since the 1960s there are now more private than social rented homes in England.

The supply of new homes slumped following the financial crisis and has failed to recover. Completions in England have remained stubbornly around the 100,000 per year mark. The 171,000 homes built in 2007/08 was the highest total for 19 years but, as the credit crunch took hold, the total fell to 141,000 and then 120,000 in the last two years of the Labour government. The first three years of the coalition saw [a total of just 333,000 completions](#). Supply in Scotland, Wales and Northern Ireland has also been lower over the past three years although the contrast has not been as sharp as in England. Key changes in policy since 2010.

### **Key changes in policy since 2010**

Within this overall context, it is impossible to separate out developments in housing policy since 2010 from what has happened on **welfare reform**. However, the process was driven as much by ideology and moral values as it was by the economic context. As work and pension secretary Iain Duncan Smith set about implementing the agenda he had developed at his Centre for Social Justice think tank, of rescuing [“Breakdown Britain”](#) by restoring the value of work and self-reliance. This mission was always likely to exist in tension with rising unemployment and the austerity-driven need for cuts in the social security budget.



Ministers did not only justify individual cuts in housing benefit on financial grounds but cited arguments of equity and morality too. Paying substantial amounts of local housing allowance to cover private rents in central London was presented as unfair to people outside the capital and caps by bedroom size were introduced. The under-occupation penalty (now inescapably dubbed the “bedroom tax”) on social tenants with “spare” bedrooms was said to be fair to private tenants who already had their housing benefit restricted and to overcrowded families on the waiting list. The financial need for cuts became mixed up with a moral message and that in turn became a popular political one, which put Labour opponents on the back foot. This applied especially to the overall benefit cap, which was justified in the name of fairness to hard-working families earning an average of £26,000 a year. However, this figure represents average earnings and does not include income that many working families receive from tax credits and in-work benefits. In reality it means a large cut in housing benefit for people living in areas with high rents.

This meant a break with an assumption that has underpinned wider housing policy for the last 20 years: that housing benefit will [take the strain](#) of higher rents. The switch from bricks and mortar to personal subsidies implicit in that had begun in the late 1970s and accelerated through the next 30 years with social rents rising ahead of inflation, stock transfer from councils to housing associations, greater use of private finance for new social housing and increasing reliance on the private rented sector to house low-income families. In one sense the coalition’s Affordable Rent programme in England, with rents increased to up to 80 per cent of market levels, was just an acceleration of this existing trend (though see below).

In the period to 2010, housing benefit had mostly covered actual rents, with only single people under 25 in the private rented sector seeing significant shortfalls. However, shortfalls have now expanded rapidly, not just through the extension of the shared accommodation rate to 26-35 year olds but to private tenants unable to find a home within the LHA caps and social tenants unable to downsize to a smaller home.

Focussing in a narrower sense on **English housing policy**, the period since 2010 has seen a series of reforms across all tenures: some of them pragmatic and in line with previous policy, some of them ideological and even overtly political. The two factors that perhaps underlie all of them are a faith in the ability of markets to deliver solutions and a determination to remove the “red tape” that is seen to stand in the way of them doing so.

In **social housing**, a radical agenda rapidly emerged. One of the first hints of what was to come was given by [David Cameron](#) in August 2010, when he floated the idea of fixed-term tenancies at a Q&A session in Birmingham. The [October 2010 spending review](#) cut investment in social housing by 60 per cent and introduced Affordable Rents. In November 2010, the coalition consulted on [“the most radical reforms to social housing for a generation”](#), giving social landlords and local authorities the freedom to offer their own local housing solutions, including fixed-term tenancies of as little as two years, Affordable Rents, rules on allocations and the discharge of their duty under the homelessness legislation with the offer of a private rented tenancy.

The reforms that went on to form a key part of the [Localism Act](#) can be seen in one sense as pragmatic: Affordable Rent as a way of building more homes for less money in times of austerity; and fixed terms as a way of ensuring that the people in most need benefit from scarce housing. In some senses they were a response to calls from within the housing sector for greater flexibility: the homelessness changes appealed to many local authorities affected by the rising costs of temporary accommodation; some landlords adopted fixed terms with enthusiasm; and the Localism Act also implemented proposals inherited from





Labour on self-financing for those local authorities with a housing stock, that offered them the chance to build council houses again on a limited scale.

However, in a final sense the reforms were ideological. As in other areas of social policy, the impression was that the Conservatives were using the financial crisis as an opportunity to move further and faster than they would previously have contemplated and that they were seeking more radical change than could be achieved by cuts alone.

In the run-up to the 2010 election, influential think tanks published a series of reports calling for market reforms of social housing. In 2009, [Localis](#) called for the end of security of tenure, rents at near-market levels, local control over allocations and a residual social housing sector only for those deemed incapable of finding their own home. This agenda and that of Conservative-controlled local authorities in west London (the report was co-authored by the then leader of Hammersmith and Fulham council) seemed to bear more than a passing resemblance to what was eventually introduced. It can also be seen as very much in line with the thinking behind welfare reform: that welfare (including social housing) should be a hand-up not a hand-out and a springboard rather than a destination.

Subsequent reforms have led in the same direction. The sale of homes under the right to buy was accelerated with increased discounts and a reduced eligibility period. A new [“pay to stay”](#) is being introduced for some social tenants, with households earning more than £60,000 facing the prospect of paying a market rent. A second round of Affordable Rent introduced in the [2013 spending round](#) was accompanied by tougher requirements on landlords to convert a proportion of their re-lets from social to near-market rents and demonstrate that they are extracting value from their existing homes through asset management.

On **private renting**, within a month of the election the government had bluntly rejected as [“red tape”](#) plans inherited from Labour for “light-touch” licensing of landlords and letting agents and a national register of landlords. More recently, communities secretary Eric Pickles has shifted stance somewhat on this, with proposals for a tenant’s charter and a model tenancy agreement for landlords and a compulsory redress scheme covering letting and managing agents.

The government also made major efforts to encourage more institutional investment in private renting. Pension funds and other institutions could open up a major new source of investment in housing but they have traditionally argued that the returns available were not high enough to justify diversifying away from commercial property. Following the [Montague Report](#) in 2012, the government has acted to encourage the development of a Build to Rent model with changes to planning legislation, as well as equity or loan finance and state guarantees. There are tentative signs that all this effort is starting to pay off.

In one of his first speeches as the new housing minister, Grant Shapps referred to **owner-occupation** when he said he wanted to see a new [“age of aspiration”](#). This was a direct reference back to the old Conservative theme of the “homeowning democracy”. However, in later speeches and interviews Shapps went out of his way to argue that lessons had been learned from the booms and busts of the past. What was needed, he said, was [“a period of house price stability”](#), even one where average earnings rise faster than prices. This was an unusual message from a politician to the homeowning majority of the electorate and one that won him some plaudits. Today programme presenter Evan Davis told him it represented [“a hallelujah moment](#) - a politician, namely you, has advocated lower house prices”.



A very different message about house prices is now coming out of the coalition. In his 2013 Budget, chancellor George Osborne announced [Help to Buy](#). Previous government-backed schemes had been reserved for new homes and first-time buyers. Help to Buy widened the support by offering £3.5 billion of equity loans to any buyer of a new home from April 2013 and £12 billion of mortgage guarantees to any buyer of any home, new or secondhand, from January 2014. Eligibility was also extended to higher earners and more expensive homes. This is a major intervention to guarantee up to £130 billion worth of mortgages; Savills estimates it could [boost transactions by 19 per cent](#). However, the mortgage guarantee element (or Help to Buy 2) met with scathing criticism from many economists and the all-party [Treasury committee](#) and open scepticism from Osborne's Lib Dem cabinet colleague Vince Cable. The fundamental criticism is that, by boosting demand without doing anything about supply, Help to Buy 2 will simply boost house prices – the opposite of what Shapps was advocating in 2010. Ironically, the response from Osborne was to announce on the eve of the 2013 Conservative Party conference that the scheme would [start immediately](#) rather than wait until January.

As the row over Help to Buy has shown, **housing supply** is now arguably a bigger political issue than at any time since the 1960s. This has caused tension within the Conservative Party between economic liberals who see the planning system as a barrier to growth, and more traditional conservatives allied with the countryside lobby. Planning is possibly the one area of policy affecting housing that can be linked back directly to the Conservative manifesto. The first moves to enact localism, including the abolition of Labour's regional strategies and housebuilding targets and allowing local communities to draw up their own local plans, seemed calculated to empower objectors to new development. However, this was balanced by a more pro-development [National Planning Policy Framework](#) that, for example, made it much easier for housebuilders to challenge local authorities with no local plan in place. The net result, despite the strength of the countryside lobby, has probably been to make the system more responsive to development.

The government has also responded to housebuilder concerns about “red tape” and viability. Several of the major firms came close to collapse in the wake of the credit crunch but they have been helped through a combination of government schemes (culminating in Help to Buy), planning reform, reduced contributions to affordable housing and a range of other measures such as a slowdown in the pace of energy efficiency requirements for new homes. Their profit margins have recovered thanks to this [direct and indirect government subsidy](#) but the impact is yet to be seen in terms of completions. In part this is because they have concentrated on building larger and more expensive houses rather than flats. There are now definite signs that output is increasing, but it remains to be seen how much housebuilders can really boost production.

Regeneration of **older housing** slipped well down the coalition's list of priorities, with the cancellation of Labour's housing market renewal programme and the removal of the target date to achieve the Decent Homes Standard in social housing. However, Liberal Democrat influence on housing policy was probably felt most strongly in a series of initiatives on empty homes.

Existing differences in housing policy in England and [Scotland, Wales and Northern Ireland](#) have widened, partly as a result of the radical England-only reforms at Westminster, partly as the result of local political and economic conditions. Austerity applies equally across the UK but the devolved governments have made different choices about where to cut public spending. Welfare reform also applies UK-wide, but the Scottish and Welsh governments have adopted different mitigation measures against, for example, the under-occupation penalty and they have both retained council tax support. Differences in the devolution



settlement for Northern Ireland mean that Stormont has more flexibility within the same overall budget and it has still not introduced this and other reforms.

Austerity has meant cuts in housing investment in **Scotland** but of around a third rather than the two-thirds seen in England. Scotland has also been able to maintain a much greater output of social housing within overall affordable totals. This is partly thanks to the fact that local authorities were freed from the HRA subsidy system much earlier than in England; in 2012 more than 1,000 council homes were built for the first time since 1991. Scotland plans to deliver 30,000 affordable homes between 2011/12 and 2015/16, of which 20,000 will be social rented and 5,000 council houses. Scotland has also pursued markedly different policies in other areas of housing policy. Legislation adopted in 2003 abolished priority need by the end of 2012, giving all unintentionally homeless people the right to a permanent home. Despite this, homeless acceptances have fallen. The private rented sector is subject to more regulation and letting agent fees are unlawful. The Scottish Government has just introduced a Housing Bill that includes provisions to end the right to buy and introduce a regulatory framework for letting agents in the private rented sector.

**Wales** has been able to protect investment in affordable housing to some extent but provision for social housing grant is still likely to fall to the lowest level for decades by 2014/15. A target of 7,500 new social and affordable homes has been set for the three years to 2015. The Supporting People budget has also been protected from the cuts seen in England. After achieving enhanced devolutionary powers following the 2011 referendum, the Welsh Government is already pursuing its own agenda on housing. The right to buy has been amended and it has just introduced a Housing Bill that includes registration of private sector landlords and agents plus changes to the law on homelessness. A Renting Homes Bill due in 2015 will reform the law on tenancy with two model contracts for social and private renters.

**Northern Ireland** saw a much bigger fall in house prices than the rest of the UK following the credit crunch. The supply of new homes is at its lowest level for several years, with private sector output down by more than half since 2007. While housing associations have boosted their production of new homes, overall social sector output has fallen from 20 per cent of the total ten years ago to 15 per cent in 2011/12. The Stormont government plans to break up the Northern Ireland Housing Executive and transfer its 90,000 homes to housing associations.

## Conclusion

The policy environment for housing has undergone a radical shift since 2010. In some areas, existing trends have seen acceleration; in others reforms have taken policy in a new direction; and there has been increasing divergence between the different parts of the UK. At the same time, the last three years have seen deterioration in all of the key drivers: the new supply shortfall continues, costs are escalating, the safety net for the most vulnerable is shrinking and homelessness is rising. The next essay will take the story forward, looking to the future beyond the next election, at the likely policy directions favoured by the major parties and the wider influence of what has become a growing housing crisis.

*Jules Birch writes regular blogs for Inside Housing at [Inside Edge](#) and also produces his [own blog](#) on housing and other issues.*





## Further reading

- Centre for Social Justice (2006) *Breakdown Britain* (available at [www.centreforsocialjustice.org.uk](http://www.centreforsocialjustice.org.uk))
- Localis (2009) *Principles for Social Housing Reform* (available at [www.localis.org.uk](http://www.localis.org.uk))
- Montague, A. (2012) *Review of the barriers to institutional investment in private rented homes* (the Montague report). London: DCLG
- Pawson, H. and Wilcox, S. (2013) *UK Housing Review 2013*. Coventry: CIH
- Wilcox, S. and Perry, J. (2013) *UK Housing Review 2013 Briefing Paper*. Coventry: CIH