



Where is housing  
heading?

## Looking to the future

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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 this 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.



## 2. Looking to the future

At first glance, austerity seems set to continue whoever wins the next election. Existing government plans signal that spending cuts will continue for at least another five years. George Osborne has committed the Conservatives to running a budget surplus by 2020 without raising taxes, while Labour has sought to rebuild its credibility on the economy by pledging to stick to overall Conservative spending plans. However, there are some caveats to this: Osborne has pledged that capital spending will rise in line with GDP; Labour will have different priorities for spending within the same overall target; and it's worth remembering that the Conservatives pledged to stick to Labour plans in 2007 before everything changed in the wake of the financial crisis.

It is also hard to see anything interrupting current trends in tenure, with owner-occupation and social renting continuing to decline while private renting increases. [According to one estimate](#), the proportion of households renting from a private landlord could reach one in five this year and exceed one in four by 2020. The full impact of Help to Buy remains to be seen but, despite the rhetoric about aspiration, it is available to everyone, not just first-time buyers. While some people will be able to get on to the housing ladder in the short term, others could be excluded in the longer term by increased house prices.

Papers later in this series will explore the implications of all this in much more detail. However, to set the scene, here is my assessment of the trends and the hints provided by the major parties about where they might go – and where they might fear to go – in individual policy areas.

As the shortfall between **housing supply and demand** continues to grow, so does its salience as a political issue in England in particular. At the 2013 party conferences, the Lib Dems called for 300,000 homes a year while Labour aimed for 200,000 a year by 2020. New housing minister Kris Hopkins has signalled Conservative support for the aspiration of building 240,000 homes a year that is widely seen as the benchmark for meeting demand while questioning whether it is deliverable at the moment.

These ends beg some obvious questions about the means. The Conservatives stress the importance of market solutions through tackling red tape on housebuilders and reform of planning, supporting Build to Rent investment in private renting and restarting a “dysfunctional” mortgage market through Help to Buy. However, there are obvious limits to private development: England has not achieved 240,000 additional homes per year since the war without a major contribution from the public and social sectors.

Labour has pledged [“a new generation” of social rented homes](#). There is also cross-party support for reform of the borrowing rules for council housing, not just from Labour and the Liberal Democrats but also from London mayor Boris Johnson and Conservative-controlled local authorities like Westminster. However, questions remain about the extent of any reform and the number of new council homes that could therefore be financed. The measures advocated range from full-scale reform of the rules [along European lines](#) to much more limited pooling of borrowing capacity under the existing borrowing caps. The Treasury has so far rejected any reform, but will it relax this line by 2020?

All three parties have also signalled their support for new towns or garden cities. This raises the prospect of significant building to scale and of real partnership between the public and private sectors. Compulsory purchase or acquisition of land at close to existing use value could help make homes not just viable but also affordable. While there have been few obvious signs of progress under the coalition, a Labour housing commission is working up more detailed proposals. However, this begs real questions about the timescales



and politics involved: new towns will only deliver benefits over the longer term while the political costs could be paid in the short term in marginal seats in the South East. Are any of the parties prepared to confront this problem?

Labour is also proposing to give local communities a new “right to grow” into neighbouring areas and new “use or lose it” powers against landbanking developers. While this has prompted accusations of “Mugabe-style land-grabbing” it’s worth noting that the idea is also supported by Boris Johnson in London. The Labour housing commission is working on the detail.

In **social housing**, a key question for the next five years in England is whether the shift in emphasis from “social” to “affordable” renting will continue. As things stand, a combination of Affordable Rent, asset management, more generous right to buy discounts and the regeneration of older estates are set to accelerate the decline of traditional social housing. With capital grant in short supply and housing benefit no longer able to “take the strain”, housing associations will increasingly look to private renting and to “affordable” products that will meet demand from working households and cross-subsidise their other work. This is already raising issues of regulation and risk.

In spite of the best efforts of the [CIH, London & Quadrant](#) and others there has yet to be a serious political debate about affordability and rents despite the long-term impact of Affordable Rent on the housing benefit bill. Will this change and if so what are the implications?

Under continuing austerity, the search for other ways to make better use of existing assets seems set to intensify. Public land and the borrowing capacity of social landlords will be key resources but they are of course both finite ones and the question of how to use them most effectively over the long term has not been addressed. So-called “sleepy” housing associations that are not building new homes could come under increased pressure to do more to sweat their assets.

Labour has pledged a new generation of social rented homes and is also looking at ways to shift the balance of spending from housing benefit to new homes (see below).

Conservative thinking could be informed by a series of reports from the influential think tank Policy Exchange over the last three years. These have recommended, first, that all [“expensive” social housing](#) should be sold to finance the construction of new homes in cheaper areas. Second, all [high-rise social housing](#) in London should be demolished in favour of low-rise development in streets. Third, central government should [make housing affordable](#) by taking over council and housing association stock prior to selling most of it to tenants. Fourth, associations should go through a process of [“equitisation”](#) into social enterprises able to raise equity finance. Such ideas appear to have been a step too far for the government but some housing associations have flirted with ideas such as stock market floatation in the past. Despite the salutary fate of the major building societies following the wave of conversions and takeovers in that sector, and doubts about who really owns associations, the idea has not completely gone away. The same applies to the extension of the right to buy to housing association tenants, an idea that used to be Conservative policy and still has supporters within and beyond the party but which has so far been ruled out as too expensive by ministers.

**Private renting** has become a key policy area. Existing trends in tenure have left an increasing number of younger households, including 1.1 million with children, with no option but to rent from a private landlord.



Low pay and insecurity in the labour market, with rising self-employment, part-time working and zero-hours contracts, might seem to indicate a need for more affordable and secure housing but instead it seems to be matched by high rents and insecurity at home. [Shelter](#) has proposed expansion and reform of shared ownership as one alternative while recent work by the [Resolution Foundation](#) suggests that Build to Rent can offer increased security to tenants as well as adequate returns to investors.

Demands for increased regulation of the sector, and especially of letting agents and rogue landlords, can be expected to increase as the sector expands. While the Scottish and Welsh administrations are both moving further in this direction, the English Conservatives have seemingly remain wedded to the deregulation of the sector that they began in 1988. In contrast [Labour is developing policies](#) on longer-term tenancies and predictable rents in “something for something” deals with landlords and action to tackle unscrupulous letting agents and rip-off fees. The party has also dropped strong hints that it will consider rent indexation or stabilisation, an idea that has the backing of Liberal Democrat and Green [London Assembly](#) members. What they seem to have in mind is something along French or German lines rather than a return to crude rent control, but this would still be a highly significant change of direction.

Recent proposals by communities secretary [Eric Pickles](#) for a model tenancy agreement and tenants’ charter are interesting in this respect. It remains to be seen what impact greater transparency on fees and being able to “request” a longer tenancy will really have, especially when most buy to let lenders stipulate maximum 12-month tenancy terms, but they illustrate the fact that private renting issues are moving higher up the political agenda for all parties.

**Housing market** interventions continue to have political traction. Supporters of Help to Buy argue that, with the exception of London, house prices are not too high. Fix the mortgage market, they say, and the housing market will follow. The policy’s many opponents point out that the bubble has only deflated a little since the peak in 2007, judged against earnings. Median house prices still average 6.74 times median earnings across England as a whole ([DCLG](#)). This poses obvious questions about what will happen if and when interest rates rise and Help to Buy 2 comes to an end. The financial crisis did not see a repeat of the housing market crisis of the early 1990s, but has this been delayed rather than averted? Will it be politically impossible for a future government to end Help to Buy, as the all-party Treasury committee fears? Will Help to Buy trigger the new boom and bust that critics fear? Will fear of repossessions and negative equity dictate policy?

In the absence of a significant improvement in affordability, homeownership is likely to continue to decline over the longer term, with profound effects for a system geared to its steady expansion. This will create increased tensions between Conservative faith in free markets and aspiration to a “property-owning democracy”. Over the longer term it also threatens to undermine the basis for [asset-based welfare](#) as the housing benefit bill escalates for renters in retirement.

As **welfare reform** continues, further cuts in benefits are already in the pipeline. Over the next three years, most working-age benefits, including the local housing allowance, will be limited to an increase of just one per cent a year regardless of the rate of inflation. Although some protection is proposed for high-rent areas, the result will be rising rent shortfalls for many private tenants. The coalition is also proposing a legal cap on annual managed expenditure (broadly speaking, spending that is outside departmental budgets and is demand-led, including benefits) from 2015. The details remain to be seen but the implications for housing benefit could be profound. Within the context of direct payment of the housing element of the universal credit to tenants, any restriction on any benefit will become a potential rent





arrears, further undermining the capacity of social landlords to invest in new homes. While Iain Duncan Smith's flagship policy continues to be dogged by problems, and further delays in its introduction are a distinct possibility, it still looks set to be in place by 2020.

Within the Conservative party, there have also been calls for a reduction in the overall benefit cap from £26,000 to [£20,000 a year](#). The Conservatives would probably already have cut housing benefit for the under-25s were it not for Liberal Democrat opposition to the idea. While the details remain unclear, they are seemingly determined to introduce "earn or learn" for young people after the next election to make it impossible, as [David Cameron](#) put it in his 2013 conference speech, "to leave school, sign on, find a flat, start claiming housing benefit and opt for a life on benefits".

Labour remains wary of getting on the wrong side of public opinion on welfare reform. It says it will be [tougher than the Conservatives](#) in forcing the long-term unemployed to accept a guaranteed job or lose their benefits. Labour supports the principle of an overall benefit cap but with regional variations. However, the party has pledged to repeal the "bedroom tax" and Ed Miliband has also signalled his support for switching public spending over time from benefits to building new homes as part of a ["one nation plan for social security"](#). This idea was first proposed by the [Institute for Public Policy Research](#), which argues that for every £100 we spend on housing, £5 goes on bricks and mortar and £95 on housing benefit. Such a move would mark a reversal of the orthodoxy of the last 35 years that personal subsidies are more efficient than bricks and mortar subsidies. The party envisages two mechanisms for achieving the switch: a three-year cap on "structural benefits" and encouraging local authorities to negotiate down the cost of rents through bulk purchasing from private landlords. However, talk of "rent stabilisation" (see above) can also very much be seen in this context.

For the moment the search for savings in the welfare budget is set to continue to focus on working-age benefits. Benefits for pensioners, which have been exempted from cuts in benefits so far but account for about half of the overall welfare budget, are likely to come under increased scrutiny in the longer term and after the next election.

Divergence in housing policy between the **different parts of the UK** seems set to continue. Indeed, with a referendum on Scottish independence scheduled for September 2014, the UK itself could diverge. The Scottish Government's white paper on independence included pledges to repeal the "bedroom tax" and remove housing benefit from the universal credit. **Scotland** already has more social democratic housing policies than England and independence would remove the current constraints of UK fiscal and welfare policy. However, it could also mean hard choices about priorities and housing's place in those. Independence for Scotland could also have far-reaching consequences for the rest of the UK, especially on the political complexion of the Westminster parliament.

Policy in **Northern Ireland** will continue to develop in the context of its different approach to welfare reform and the break-up of the Northern Ireland Housing Executive. In **Wales**, the Housing Bill and Renting Homes Bill will create a very different legislative context while the Assembly will, subject to a referendum, gain new tax and borrowing powers, including control over receipts from stamp duty. This extension of devolution has already led to calls by local government in England for new powers and pressure for that can be expected to intensify.

## Conclusion



That brief survey of the prospects for housing policy to 2020 viewed them through the lens of the main political parties' stated priorities. But there are a series of other important issues and policy problems that are much less discussed, often because they stray into hazardous political territory. Of these I would highlight five.

**Under-occupation** is the first. Imposing the “bedroom tax” or ending the “spare room subsidy” has turned out to be a counter-productive way of addressing under-occupation in the social rented sector that will potentially cost the public sector as a whole more than it saves. Labour’s pledge to repeal the measure, plus a growing number of First Tier Tribunal rulings and other judicial reviews, suggest that its days could be numbered.

However, there is a broader issue of under-occupation, which is far more prevalent among homeowners and older households than social renters and younger households. A better distribution of housing from elderly downsizers to young families would be one way to tackle the housing shortage. Various solutions have been proposed including [building more bungalows](#), to [reform of the tax system](#) to promoting [better design](#) of homes for older people. However, all of them come with political risks attached. This is why pensioners are exempted from welfare reforms including the bedroom tax.

**Provision for the poorest** is a neglected policy area that will surely regain attention. The steady shift from social to “affordable” housing and to private renting begs obvious questions about who will house the poorest and most vulnerable households. The rising rent shortfalls that will result from welfare reform can only help to intensify worsening poverty for those in work as well as out of work. In the medium term, shortfalls are likely to mean increased concentrations of the poorest households in the poorest quality accommodation, with increased overcrowding and rising spatial inequality as benefit claimants are excluded from high-rent areas such as Central London. For recent migrants, tightened rules such as stronger “local connection” conditions on housing allocations, and immigration checks in the private rented sector, may well mean that their concentration in the poorer parts of the private rented sector (or even in [“beds in sheds”](#)) could get worse.

These impacts will intensify as local authorities discharge their duty to homeless people with private tenancies in cheaper areas. Loss of a private sector tenancy has been the number one cause of homelessness since 2011 and the latest figures suggest that the first wave of welfare reform is already leading to [rising homelessness](#). The number of homeless families housed outside the capital by London boroughs doubled in the 12 months to June 2013. The local safety net for the most vulnerable households will continue to shrink thanks to cuts in the budget for Supporting People and advice centres and decisions will be less subject to challenge as the funding and scope of legal aid shrinks. In its [Homelessness Monitor](#), Crisis warns that the weakening of the housing safety net under localism in England will exacerbate homelessness. The number of people sleeping rough is rising, although counts are now more accurate under new methodology introduced by the coalition in 2010.

While there are few current signs of a reversal in these trends, history suggests that the exposure of scandals of bad housing and homelessness can move these issues rapidly up the political agenda.

**Energy efficiency** has slipped down the political agenda since the recession. The deadline for all new homes to become zero carbon remains but the definition of zero carbon has been watered down and the broader Code for Sustainable Homes is being phased out as part of the government’s drive to reduce “red



tape” in housing standards. On existing homes, take-up of the coalition government’s flagship New Deal programme has been embarrassingly low, with the rules and cost of loans seen as major barriers. However, with gas and electricity bills now a major political issue, things could change. On the one hand, funding for energy efficiency programmes could be a casualty of a government review of the “green” element of energy bills. On the other, growing awareness of fuel poverty could prompt action to address the energy efficiency of existing homes. Housing is responsible for over a quarter of the UK’s greenhouse gas emissions and retrofitting the least efficient existing homes continues to make long-term environmental sense.

**Inequality** is increasing and our housing system has become both the engine for and the result of this profound trend. It contributes to and reinforces a growing divide between rich and poor and young and old with damaging consequences for society as a whole. High house prices, especially in London and the South East, increasingly mean that only the children of existing homeowners can access the market, leaving reluctant renters priced out. High rents and restrictions on housing benefit are leading to increased social segregation. These trends have been reinforced by austerity and policy responses to the financial crisis. When combined with low wages, high housing costs contribute directly to the falling social mobility identified by the [Social Mobility and Child Poverty Commission](#). Affordability and poor housing conditions also impact on health and education. Will any government be prepared to address housing inequality?

**Tax reform** will be on the agenda as governments look for different ways both to raise revenue and to permit cuts in direct taxes. Under continuing austerity, residential property looks like an obvious target. By comparison with other forms of investment, it is relatively lightly taxed, with primary residences exempt from capital gains tax and the old income tax on imputed rents. Under the current system, housing is effectively taxed at the point of sale (through stamp duty) and of construction (through conditions on planning).

Both Labour and the Liberal Democrats are committed to a mansion tax on homes worth over £2 million, though full details remain unclear and the practicalities have been challenged. Think tanks have floated a range of other ideas. The IPPR has called for [increased tax on overseas investors](#) (George Osborne is said to be looking at capital gains tax) and the Smith Institute has examined the case for a [property speculation tax](#). Support can be found across the political spectrum for a land value tax as a way of encouraging the more efficient use of land, potentially as an alternative to the regressive council tax and/or stamp duty. More modestly, there are many advocates of reform of stamp duty to remove its “slab” structure. Despite the attractions, it remains to be seen whether any political party will be prepared to take up ideas which all have the potential to create so many losers, on which media attention would surely focus..

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

### Further reading

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