England

NATIONAL HOUSING FEDERATION

BROKEN MARKET BROKEN DREAMS

Let's end the housing crisis within a generation

Home Truths 2014 / 2015

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Introduction

England is suffering a catastrophic housing crisis that has been more than a generation in the making. The number of new homes built each year is not nearly enough – to keep pace with demand we need around 245,000 homes per year[1] in England but manage to build only around half of this. House prices are rising ever higher meaning more people are locked out of home ownership. And rising house prices and rents are spiralling out of control as demand outstrips supply decade after decade.

So if this is the 'norm' for housing and many people have benefitted from rising house prices, then why is it now catastrophic? Well, the knock-on effects of our housing crisis for the next generation are profound. First-time buyers are struggling to buy their first home unless they can get significant help from family members. This doesn't just make home ownership harder for young people, for most it puts it forever out of reach.

An rising number of people are now private renters and face high costs. As well as impacting on day-to-day living, high housing costs also increase the benefit bill. We have seen the number of people who claim housing benefit but are also in employment double over the last six years. Increasingly, people's earnings do not cover all living costs and so they need assistance from the Government and the taxpayer. Not because they aren't working hard, but because our housing market has been allowed to go unchecked for too long.

Crucially, there is large variation across the country and no such thing as one single English housing market. This is one reason why we have given the London market its own section in this report and will soon be releasing a local series of reports. In order to better represent the challenges of different local markets, this report uses the 39 Local Enterprise Partnership (LEP) areas, rather than local authority boundaries, which provide a clearer picture of the geographies in which people both live and work.

And while different places will need to focus on different challenges, what unifies each area is a need to act now to fix our broken housing markets, locally and nationally. The warning signs are clear; in the stories we hear of people struggling with rent, needing housing benefit to keep a roof over their heads, being unable to be near their family, unable to buy their own home or downsize to suitable, more affordable homes. This would be mitigated if we built more homes of all types for people at different price points in the market.

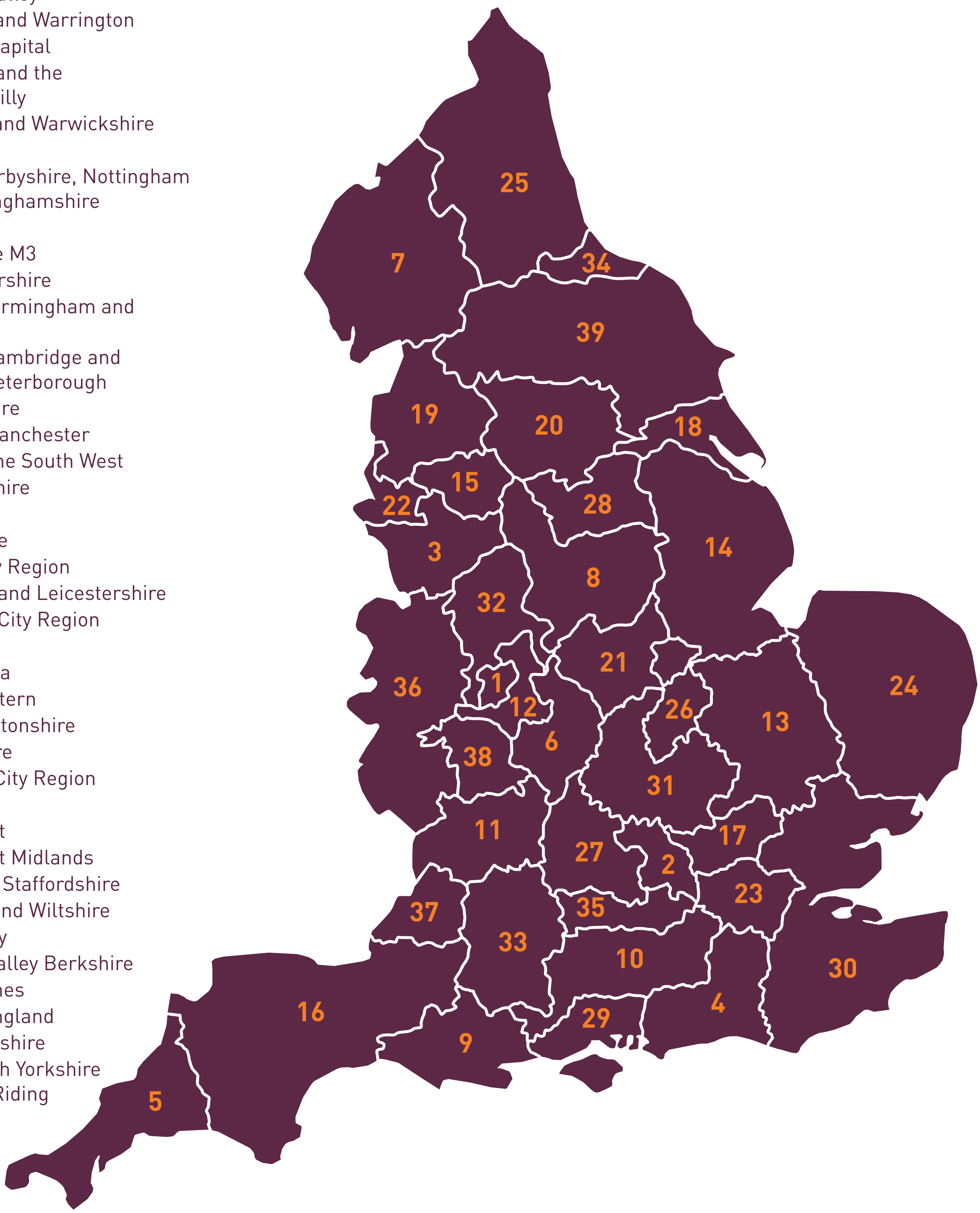
To include the perspectives of those most affected we asked YouGov to poll the public[2] and the results are as unsurprising as they are depressing in capturing the public's opinion of how the successive failure of governments continues to affect them. Only one in four people think their housing situation will improve in the next ten years, and three quarters (77%) believe it is harder to own a home today compared to their parents' generation. They are right. But most damningly of all, eight out of ten people polled don't believe any of the mainstream political parties will effectively deal with the issue of housing. If ever our politicians needed to sit up and listen to the public, and to take control of England's housing markets, it is now.

It is clear that stopgaps and short-term policies aren't going to house the next generation. This is why we are calling on all political parties to commit to end the housing crisis within a generation. We want the next government to publish a long-term plan within a year of taking office that sets out how they will achieve this. In this report the National Housing Federation will begin to describe the bold actions Whitehall and Westminster must take to tackle the enduring challenges that continue to dominate housing in England.

David Orr
Chief Executive
National Housing Federation

Map of Local Enterprise Partnerships (LEPs) across England[3]

1 Black Country
2 Buckinghamshire Thames Valley
3 Cheshire and Warrington
4 Coast to Capital
5 Cornwall and the Isles of Scilly
6 Coventry and Warwickshire
7 Cumbria
8 Derby, Derbyshire, Nottingham and Nottinghamshire
9 Dorset
10 Enterprise M3
11 Gloucestershire
12 Greater Birmingham and Solihull
13 Greater Cambridge and Greater Peterborough
14 Lincolnshire
15 Greater Manchester
16 Heart of the South West
17 Hertfordshire
18 Humber
19 Lancashire
20 Leeds City Region
21 Leicester and Leicestershire
22 Liverpool City Region
23 London
24 New Anglia
25 North Eastern
26 Northamptonshire
27 Oxfordshire
28 Sheffield City Region
29 Solent
30 South East
31 South East Midlands
32 Stoke and Staffordshire
33 Swindon and Wiltshire
34 Tees Valley
35 Thames Valley Berkshire
36 The Marches
37 West of England
38 Worcestershire
39 York, North Yorkshire and East Riding



Executive summary

Today, the UK faces a profound housing crisis which has been more than a generation in the making

- Demand for housing – through increasing population, decreasing household size and increasing credit availability, to name a few factors – is outstripping housing supply.
- This is because we have a chronic undersupply of housing. Estimates show that we need around 245,000 homes each year to keep up with growing demand. We would need even more to clear the backlog of pent-up demand.
- As a result, house prices have more than doubled (after accounting for inflation) in 40 years.

Housing unaffordability is high

- As house prices have risen, wages have not been able to keep up.
- Across the whole of the UK today, the average home now costs seven times the average salary. In the 1960s, a home was 4.5 times the average salary.

First-time buyers are hit extremely hard

- First-time buyers now need to be richer and have larger deposits.
- The income of an average first-time buyer today (£36,500) is nearly double that of an average first-time buyer in the early 1980s (£20,000) after accounting for inflation.
- And the deposit required today (£30,000) is almost ten times the deposit required in the early 1980s (£2,000-3,000), after accounting for inflation.

There is a growing disparity between the 'haves' and the 'have nots'

- As house prices are rising, people between the ages of 25 and 44 are increasingly renting.
- There has been a decrease of more than ten percentage points in the proportion of 24-34 year olds buying a property over the last five years.
- There has been an increase of almost 15 percentage points in private renting amongst the same age group over the same period.
- This also impacts on the day-to-day cost of living. On average, home owners with a mortgage spend 20% of their income on paying that mortgage. However, private renters spend 40% of their income on rent. As younger people are significantly more likely to be affected by this imbalance this makes saving for a deposit harder.
- It is increasingly the case that in order to get on the housing ladder, first-time buyers need financial assistance from their family. In 2005, roughly a third of first-time buyers received assistance – this grew to almost two-thirds in 2011.
- There is also an important issue regarding property wealth accumulation. A large amount of that wealth is owned by the older age groups particularly in the South East, South West and London (accounting for 35% of total property wealth in England).
- It isn't just that a large proportion of wealth is located in the South of England – the average value of wealth is larger too. Average property wealth in London (£239,000) is twice as much as the average property wealth in the North of England (between £108,000 and £120,000).
- Furthermore, after the largest economic crash the country has experienced for over a century, property wealth value has appeared to concentrate even further in London. Between 2006 and 2012, average property wealth increased by £19,000 in London while in the North East it fell by £12,000.

These housing pressures have wider implications for the Government

- The impact of undersupply and high prices, stagnating salaries, decreasing affordability and more people privately renting is increasing the housing benefit bill. Indeed, the total housing benefit bill in England – accounting for inflation – has risen by almost 150% from £8.7bn to £21.5bn in 21 years.

- This isn't just an unemployment problem. Not only has unemployment been falling recently, the proportion of those claiming housing benefit who are in employment has doubled from 11% in November 2008 to 22.5% in May 2014.
- Middle-income households are increasingly struggling with housing costs. The percentage of claimants between November 2008 and May 2014 has increased most in those households with gross incomes of around £20,000 to £30,000 – around 350,000 households (or two-thirds of all new claims made within this period).

Different places are affected in different ways

- There isn't just one housing market in England – the country consists of many housing markets with large variation.
- Generally, areas in the south of the country face acute housing pressures and have seen prices and unaffordability rise. House prices in London were close to £500,000 in 2013, almost doubling in a decade. Other places with high prices include the Local Enterprise Partnership areas of Enterprise M3, Hertfordshire and Oxfordshire which all showed average house prices of more than £320,000 in 2013.
- In the North, house prices aren't as high, but unaffordability can still be a problem. Some places still see house prices at around seven times that of the average salary.

London is a different world

- The average house in London has increased by £41,000 annually – a figure which is £8,000 more than the average pre-tax London salary.
- However, there are profound differences across the 33 boroughs of London, demonstrating that we need to understand local variation.
- The average London house costs around £500,000 but there are 22 (out of 33) boroughs with a lower average house price.
- At current house building rates London will face a shortfall of over 700,000 homes by 2031. Crucially, there is also a need for homes in the right places, at prices that people can afford.

This crisis has historical roots and requires bold interventions to solve it

- Growing demand pressures and various government interventions over the past 40 years have compounded the problem.
- This is why we need bold solutions to solve the problems.
- We want the next government to publish a long-term plan within a year of taking office that will show how they will end the housing crisis within a generation (the next 25 years).
- We have had enough short-term housing initiatives, now we need a long-term plan that tackles the underlying causes of the housing crisis – not just tinkering around the edges.

Public opinion

A YouGov poll[4] commissioned by the National Housing Federation to listen to the views of the public found that:

- Almost eight out of ten (77%) people believe that none of the mainstream political parties will effectively deal with the issue of housing.
- Only one in four people think their housing situation will generally improve in the next ten years.
- Over three quarters of people (77%) think it is harder to own a home today than it was for their parents' generation.
- Seven out of ten people (73%) think the Government should play a role in improving accessibility to housing.

The housing crisis – decades in the making

The housing crisis today has historical roots. In the decades after World War II there was a need to replace homes that had been damaged, to ensure people had shelter, and a greater need to more effectively plan the location of new housing. This enabled political parties of all colours to agree and commit to building more homes.

Housing is the first of the social services. It is also one of the keys to increased productivity. Work, family life, health and education are all undermined by overcrowded homes. Therefore a Conservative and Unionist Government will give housing a priority second only to national defence. Our target remains 300,000 houses a year.
Conservative Party Manifesto, 1951[5]

There is a house famine in the land, Liberals will not be satisfied until there is a separate dwelling for each family at a reasonable rent.
Liberal Manifesto, 1945[6]

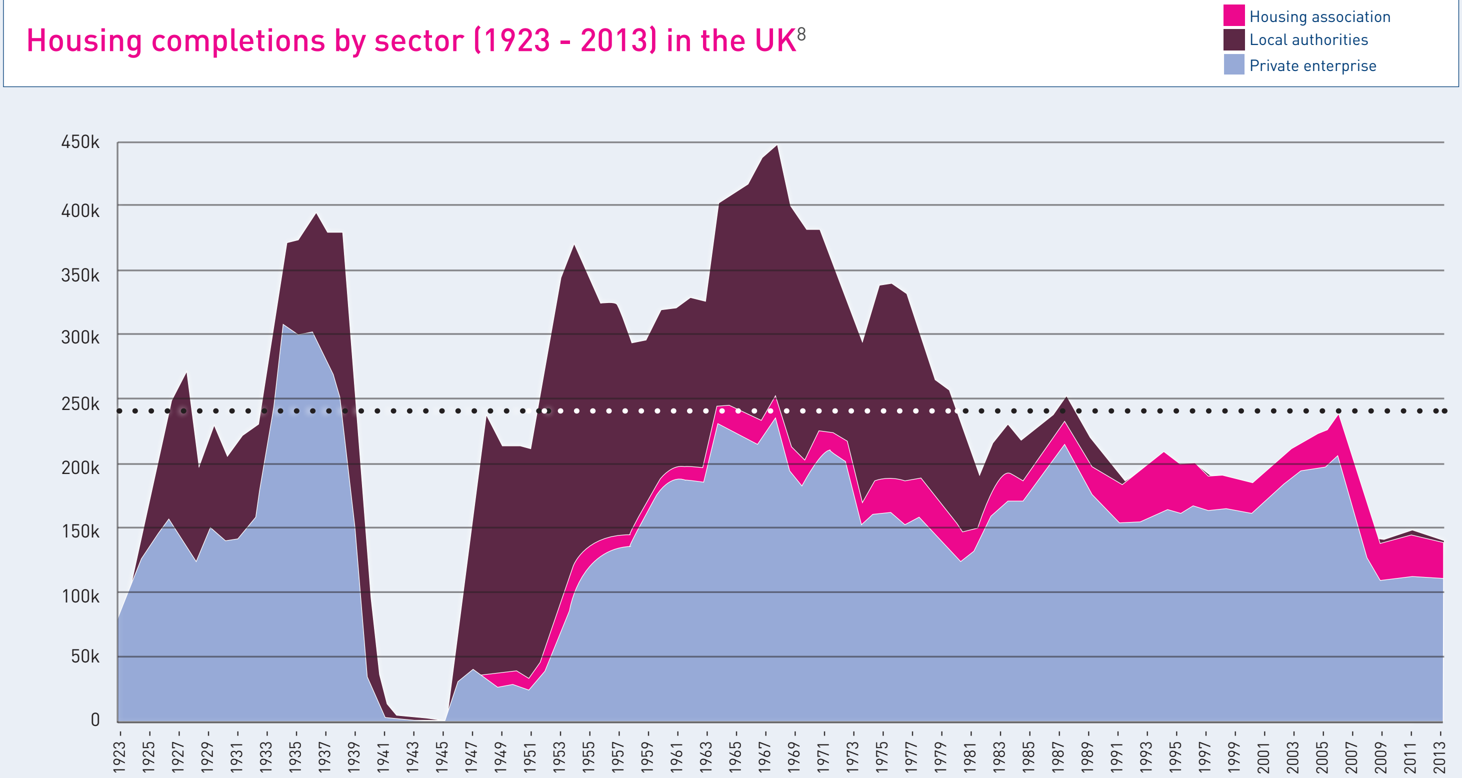
Labour's policy has two aims: to help people buy their own homes and to ensure an adequate supply of decent houses to let at a fair rent.
Labour Manifesto, 1959[7]

Due to a combination of public investment into housing and infrastructure and the private sector feeling more confident about the market, the number of new homes continued to grow up to its peak in 1968 (see Fig. 1).

After the peak in 1968, the 1970s brought significant changes – changes that would start to sow the seeds for large house price increases. The economy was becoming ever more globalised and dependent on external factors while some markets were increasingly deregulated.

Fig. 1

Housing completions by sector (1923 - 2013) in the UK[8]



The oil crisis in 1973 had a profound impact on the economy and people's decision making. It forced inflation to rise, eroded people's savings and made them consider private investment – this investment came in the form of home ownership.

The financial deregulation of the mortgage market in the 1970s had a large impact because banks – not just building societies – could provide mortgages. This increased both the demand for and supply of credit. There were also significant financial benefits to investing in housing, most notably tax breaks such as MIRAS[9] which provided tax relief on mortgages.

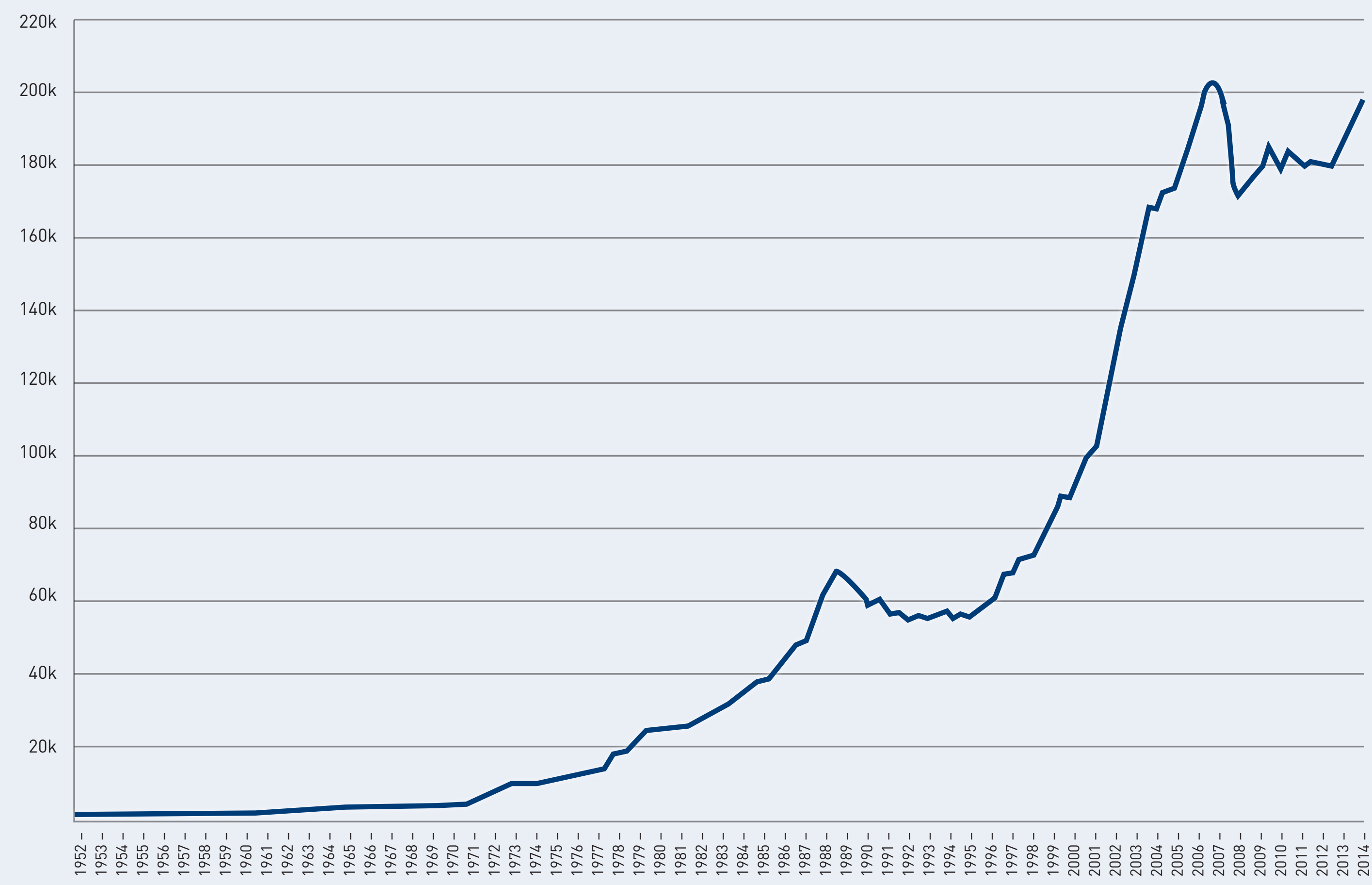
These changes coincided with changing households – such as the increasing number of single households – which has further changed the demand for different types and sizes of property. Indeed, the average household size fell from 4.3 people in 1911 to 3.0 in 1961 and 2.4 people in 2011[10].

Private investment in housing coincided with a decrease of public investment and the market moved towards boom and bust cycles (see Fig. 2 and Fig. 3).

The 1980s brought further changes to the UK economy, most notably with a shift towards people working in the service sector which grew predominantly in London and the South East. Consequently, migration from north to south created a divide in England. In each year between 1971 and 1988, there was net migration from the North to the South with a peak in 1986 of almost 70,000 people – a trend which was replicated in the 1990s[12].

Fig. 2

Nominal house prices in the UK, in £s[11]



From a housing perspective, the 1980s saw a halt to new towns being built, the introduction of Right to Buy (whereby people renting a council house were subsidised to buy their homes at a substantial discount), a decrease in public investment into social housing, a growing aspiration to own, further financial deregulation and in particular mortgages being granted on joint income. This coincided with a rising proportion of women in work as well as the growth of part-time work. From 1971 to 1990 male employment fell from over 90% to around 83% while female employment increased from around 55% to 66%[13]. This meant that credit extended and expanded due to an increasing workforce.

Despite the private sector building a consistent number of houses throughout these decades (albeit at a far lower rate than we currently need), a decrease in public sector investment combined with financial deregulation caused house prices to rise – a more volatile boom and bust scenario which was to be replicated in subsequent decades. Fig. 3 shows how the boom and bust cycles of real house prices increase in duration and continually ratchet up.

As this boom and bust cycle became the new normal and people saw the upswing in the market as an opportunity to make money, it reinforced the notion of a home as an asset to be profited from. However, just as the number of new homes could not keep up with the demand for housing – which, in turn, was fuelled by credit – earnings couldn't keep up with prices. The last boom from 1997 increased unaffordability to levels much higher than previous decades (see Fig. 4).

The large increase in unaffordability since the mid-1990s indicates an overvaluation of house prices of around 20%. Looking at the average affordability ratio for young adults in the 1970s compared to today (i.e. from 1973 to 2013), today's affordability ratio is around 20% higher than the long run average, indicating a growing gap between house prices and earnings, making home ownership harder to achieve[16] (see Fig. 5).

This combination of undersupply of housing and increased demand has serious consequences for the future. Population growth, easier credit and smaller household sizes have all contributed to increasing demand and supply has not kept pace. Looking forward, based on household projection numbers and recent housing supply rates, ***by 2031 England will face a shortfall of 2.5 million homes.***[17]

Fig. 3

Real house prices in the UK (adjusted for inflation), in £s[14]

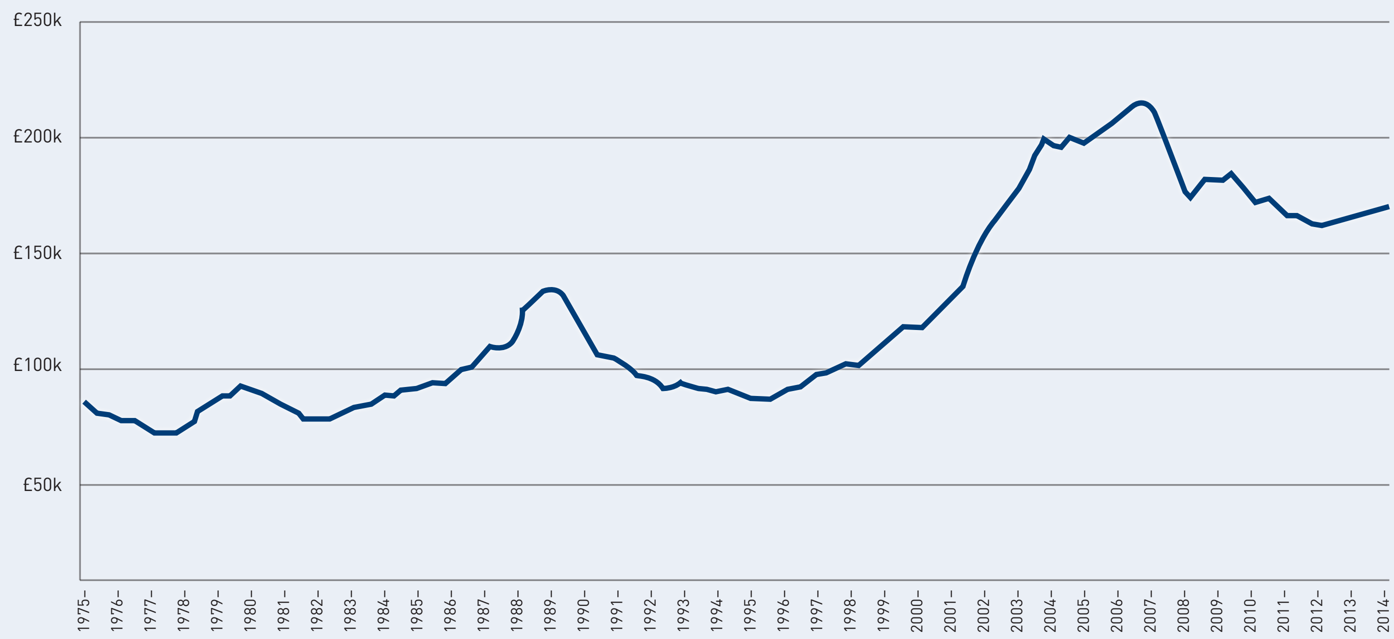


Fig. 4

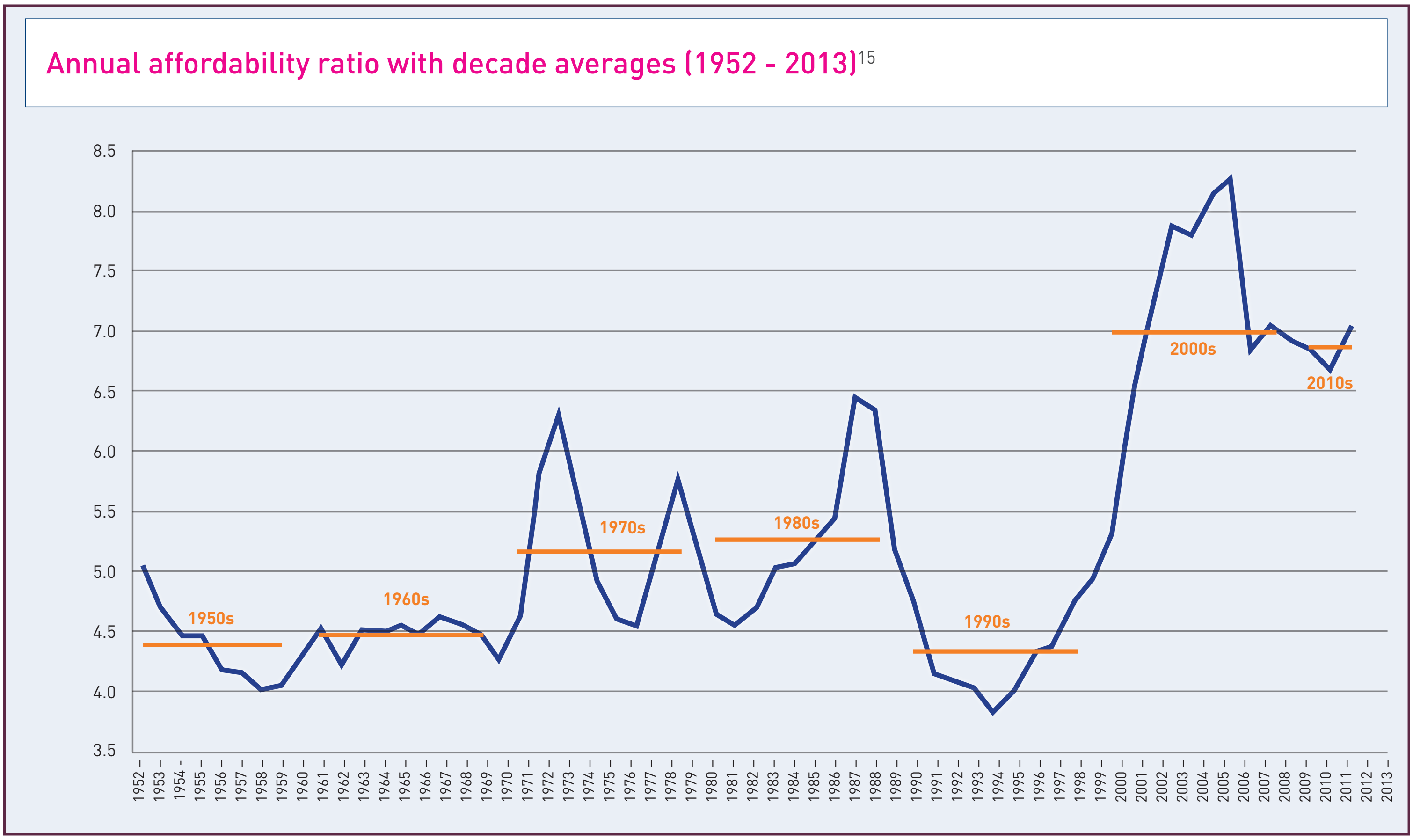
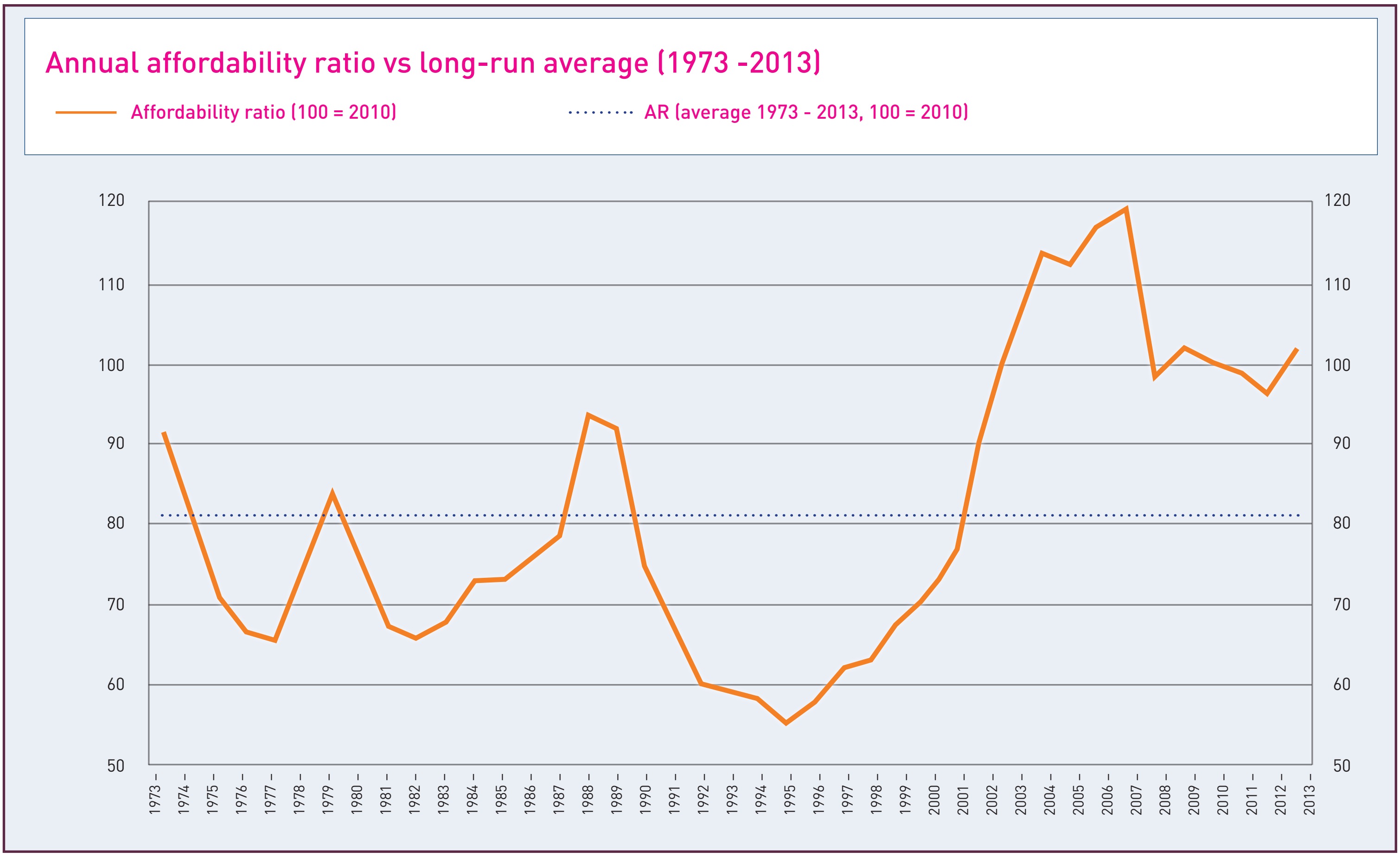

Annual affordability ratio with decade averages (1952 - 2013)[15]
1950s
1960s
1970s
1980s
1990s
2000s
2010s

Fig. 5


Annual affordability ratio vs long-run average (1973 -2013)
Affordability ratio (100 = 2010)
AR (average 1973 - 2013, 100 = 2010)

Increasing prices and decreasing affordability hits first-time buyers

As house prices have grown significantly faster than earnings, credit has been used to plug the gap. Credit expansion can be a problem for the wider economy (through greater risk) and would-be homeowners (through increased household debt levels). First-time buyers are increasingly affected as the salary required for a mortgage increases.

When we look at mortgage data we can see that first-time buyers now need to be richer, borrow more and stump up a larger proportion up front. The income of an average first-time buyer today (£36,500) is nearly double that of their parents as average first-time buyers in the early 1980s (£20,000) after accounting for inflation[18]. In real terms this means that while in the early 1980s an average mortgage for a first-time buyer was 1.7 times their annual income, today this ratio has risen to 3.4[19]. Furthermore, the average deposit required in real terms has increased from around £3,000 in the early 1980s to over £30,000 in 2013. As a result, first-time buyers today need to be richer, borrow more and have larger deposits (see Figs. 6 to 8).

Fig. 6

Borrower(s) total income (median, real prices) and age of borrower (median) (1979 - 2013)[20]

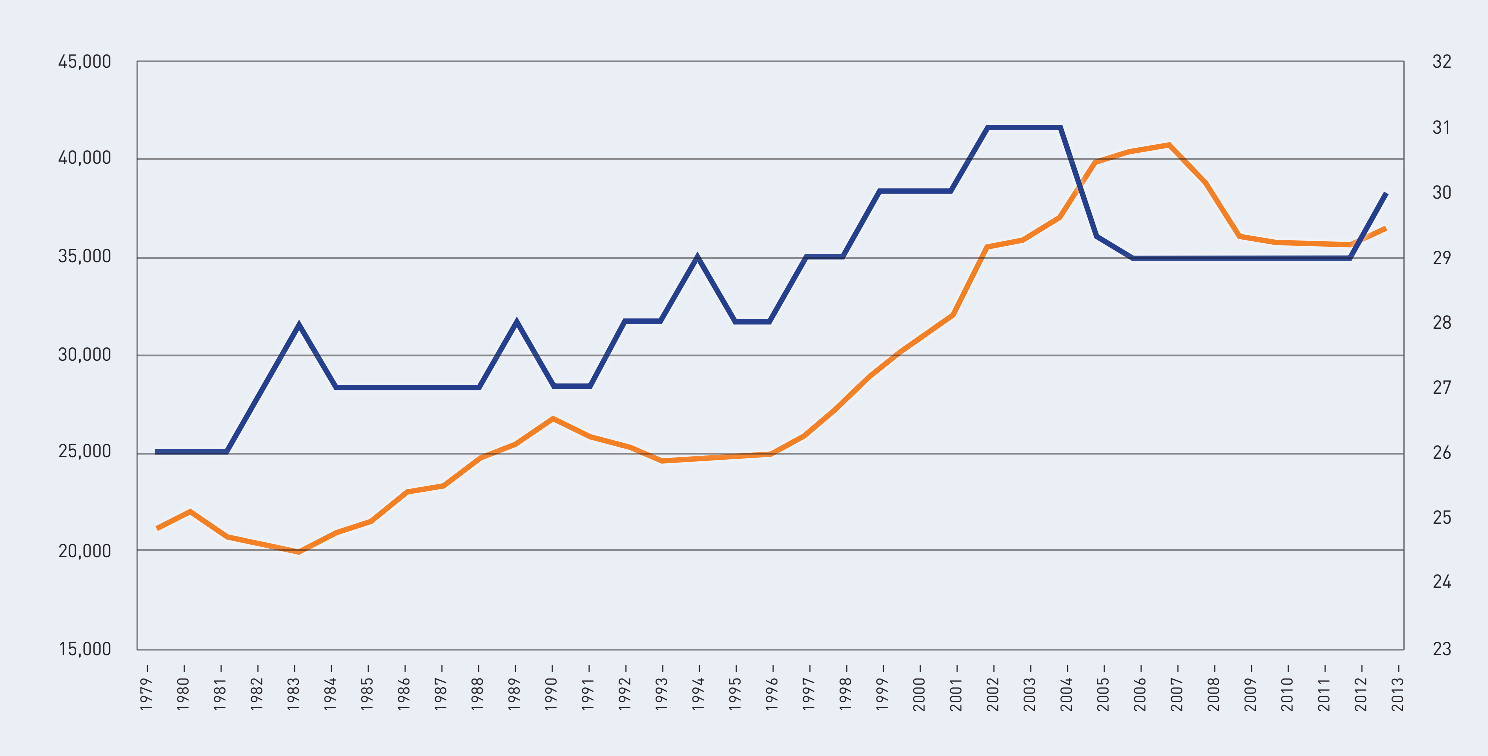


Fig. 7

First-time buyer income multiple – mortage value to income ratio[21]

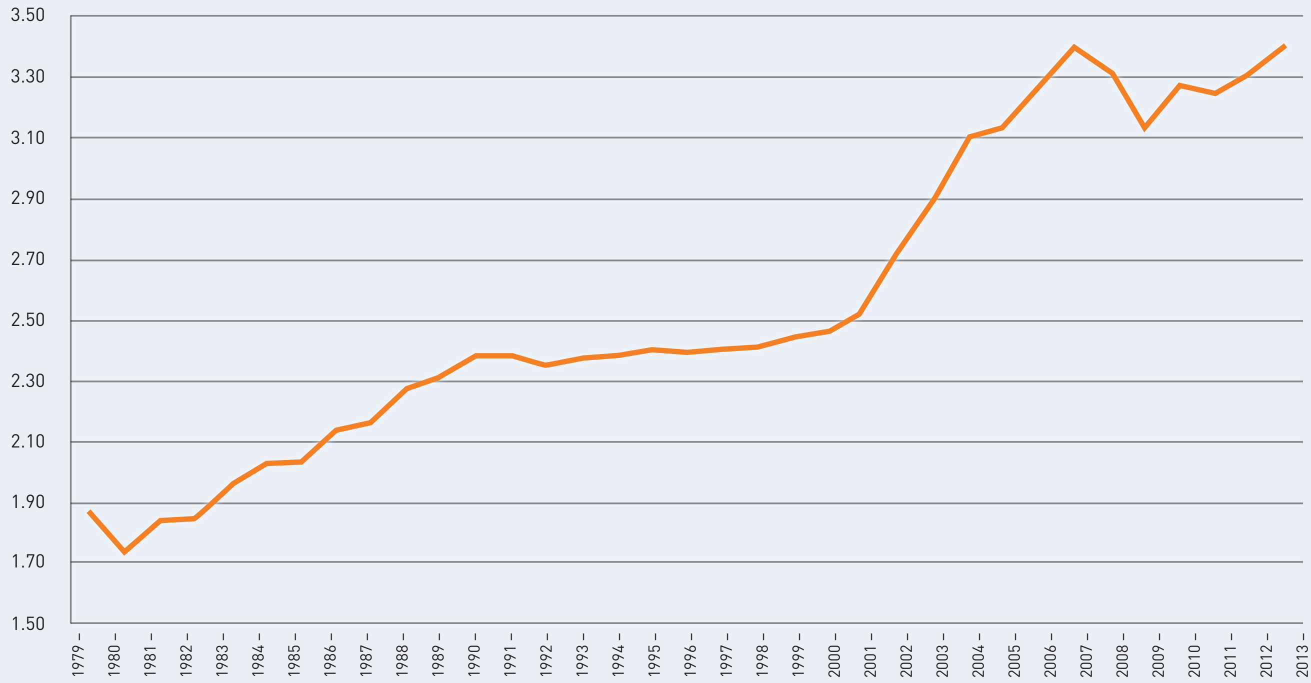
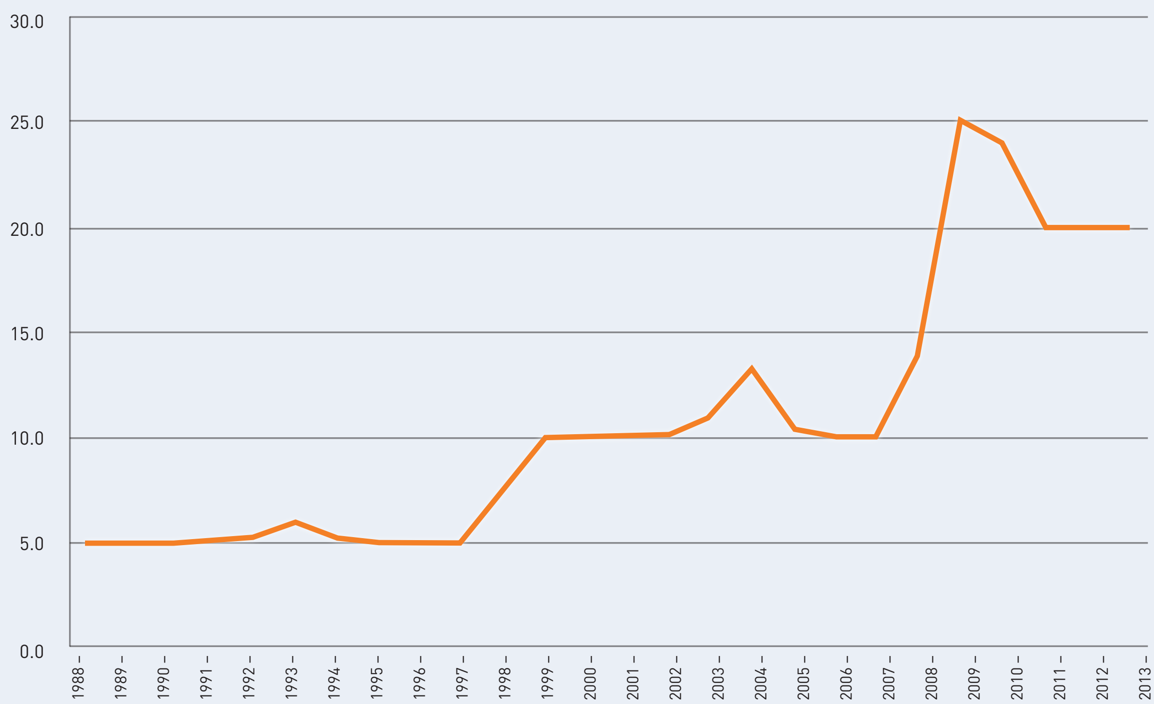


Fig. 8

Deposit as a percentage of property price for first-time buyers (1988 - 2013)[22]



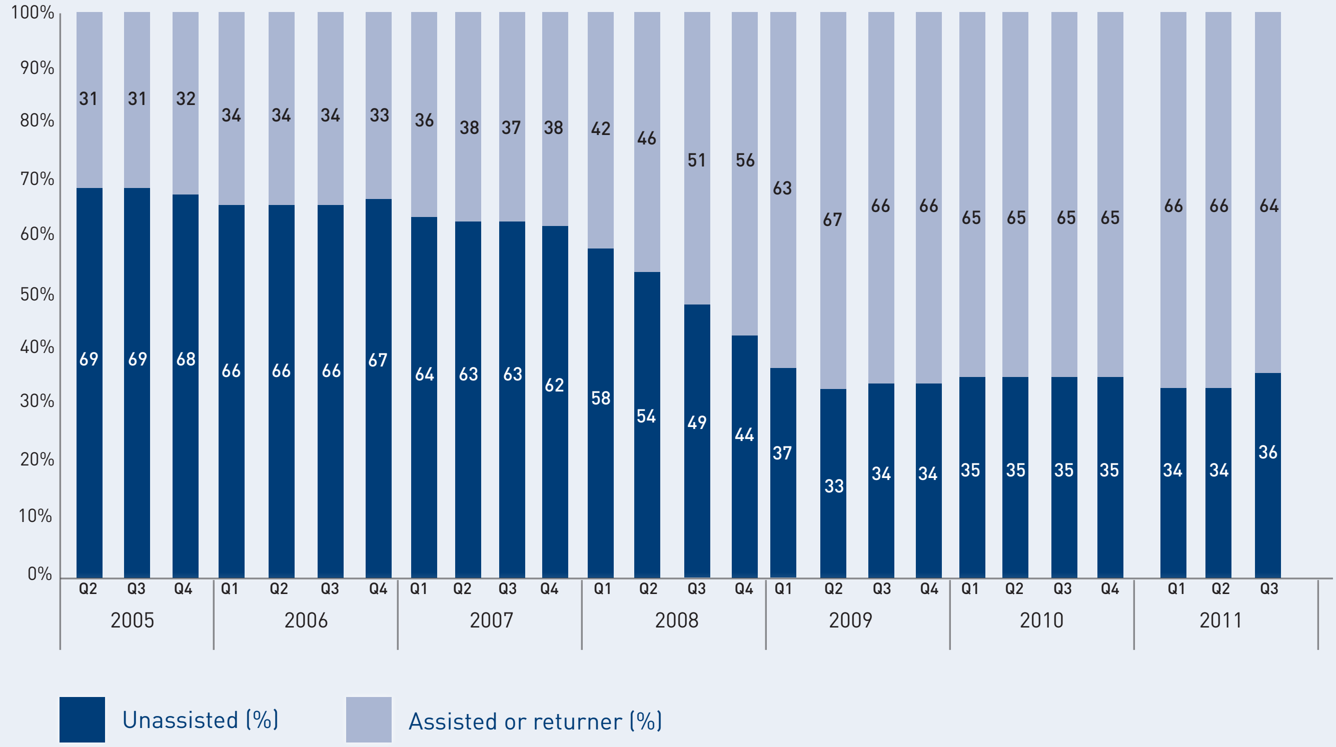
During the last house price boom between 1997 and 2007, there was no rise in the average age of first-time buyers. One potential explanation for this would be that banks were more willing to lend at high loan to income values as prices outstripped earnings[23]. Since the financial crash, credit has become more constrained and banks require larger deposits – the deposit needed reached a peak of 25% in 2009. This means people will need extra assistance from other sources in order to get onto the housing ladder.

The proportion of first-time buyers who did not receive assistance from their family fell from 62% in the last quarter of 2007 to a low of 33% in quarter two of 2009 (see Fig. 9) suggesting that it has become increasingly difficult for first-time buyers to buy out of their own resources. This suggests that the majority of first-time buyers who are able to get a mortgage today receive financial help from home.

The difficulty faced by first-time buyers could have profound effects on the wider market – more people will be forced to rent rather than choosing to do so, it will impact on mortgage availability, it will slow transactions for people wanting to move to larger properties and it will slow sales for developers, to name a few factors.

Fig. 9

First-time buyer financial assistance[24]



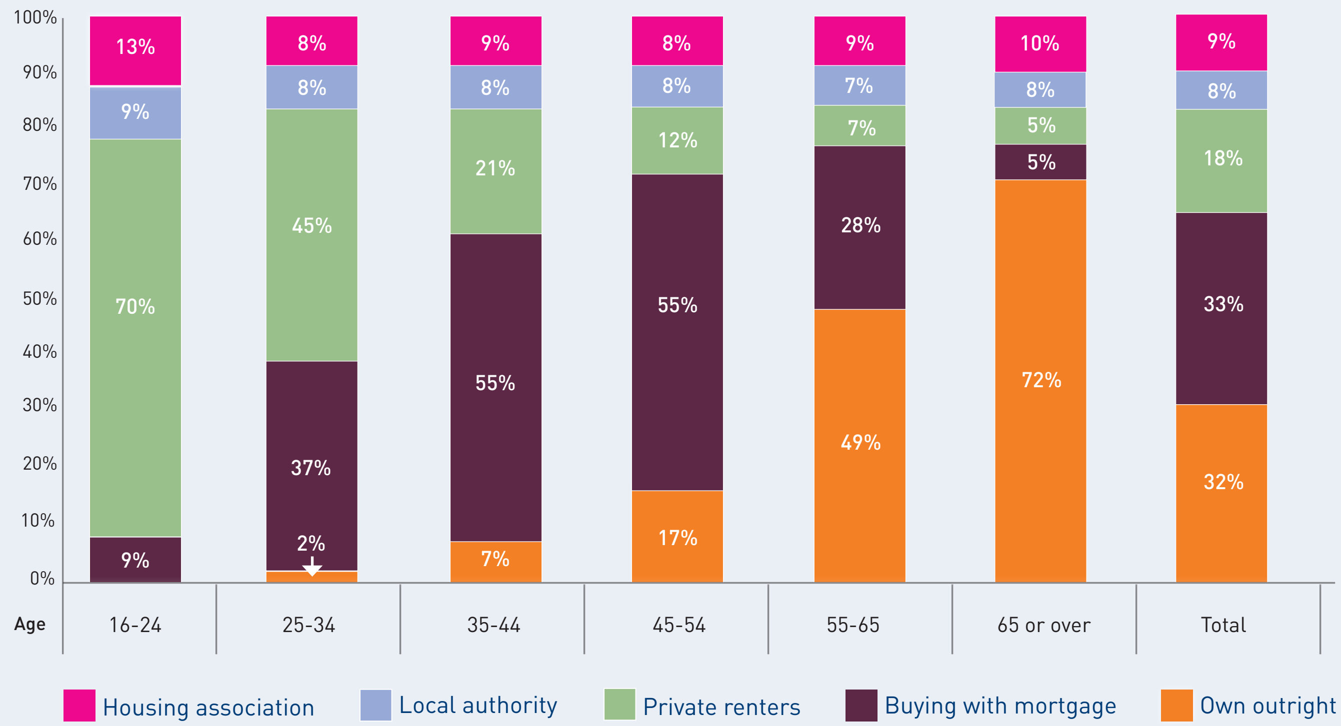
An increase in private renters

Looking at the breakdown of where different age groups are living, younger people tend to rent while older people tend to own. Whilst not surprising, this does raise important issues. For example, younger people will be disproportionately affected by issues within the private rental sector and families may have to make different choices about where to live and who to live with.

Following the trough in the housing market since the financial crash, there has been a distinct shift, particularly over the last few years, from owning a house with a mortgage towards private renting. Private renters now outnumber renters from local authorities and housing associations (taken together) for the first time since the 1960s[26] (see Fig. 10). Furthermore, between 2008/9 and 2012/13, there has been an increase of almost four percentage points (or almost 900,000 households) renting privately and a decrease of around four percentage points in those owning with a mortgage (see Fig. 11).

Fig. 10

Tenure of English households by age in 2013[25]



Crucially, this shift is felt differently across age groups. The most obvious trend is that in the last few years, the proportion of people in each of the 16-24 and 25-34 age groups in the private rented sector has increased by more than ten percentage points. This sector has also seen a 6% rise in those aged 35-44 (see Fig. 12). This corresponds with similar proportional decreases in those buying with a mortgage and those renting from a local authority combined. This is hardly surprising when the number of homes built by local authorities is extremely low due to insufficient investment and that ownership is becoming increasingly difficult due to rising prices.

As the majority of people still want to own a home, this tenure shift has come as a result of market pressures – house prices rising faster than wages – and does not indicate a shift in public preference. Over a 14-year period from 1996 to 2010, the proportion of people wanting to own their own home broadly stayed flat at 85-86%[29]. So it shows how the market is preventing people from achieving their aspiration to own a home, with more people forced to stay in the rented sector.

Fig. 11

Tenure change (percentage points) in England between 2008/09 and 2012/13[27]

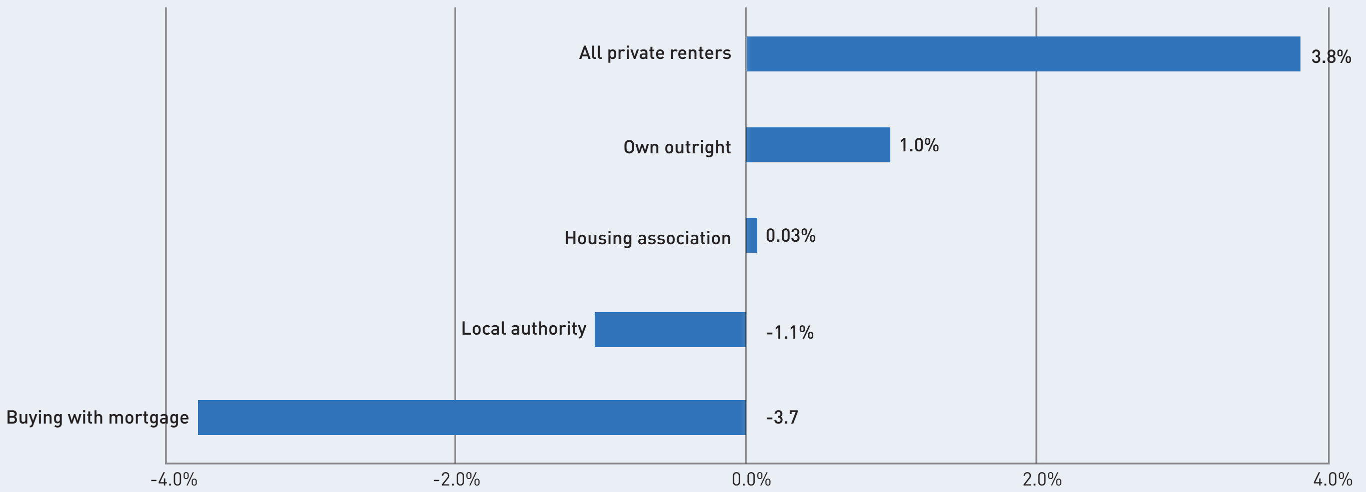
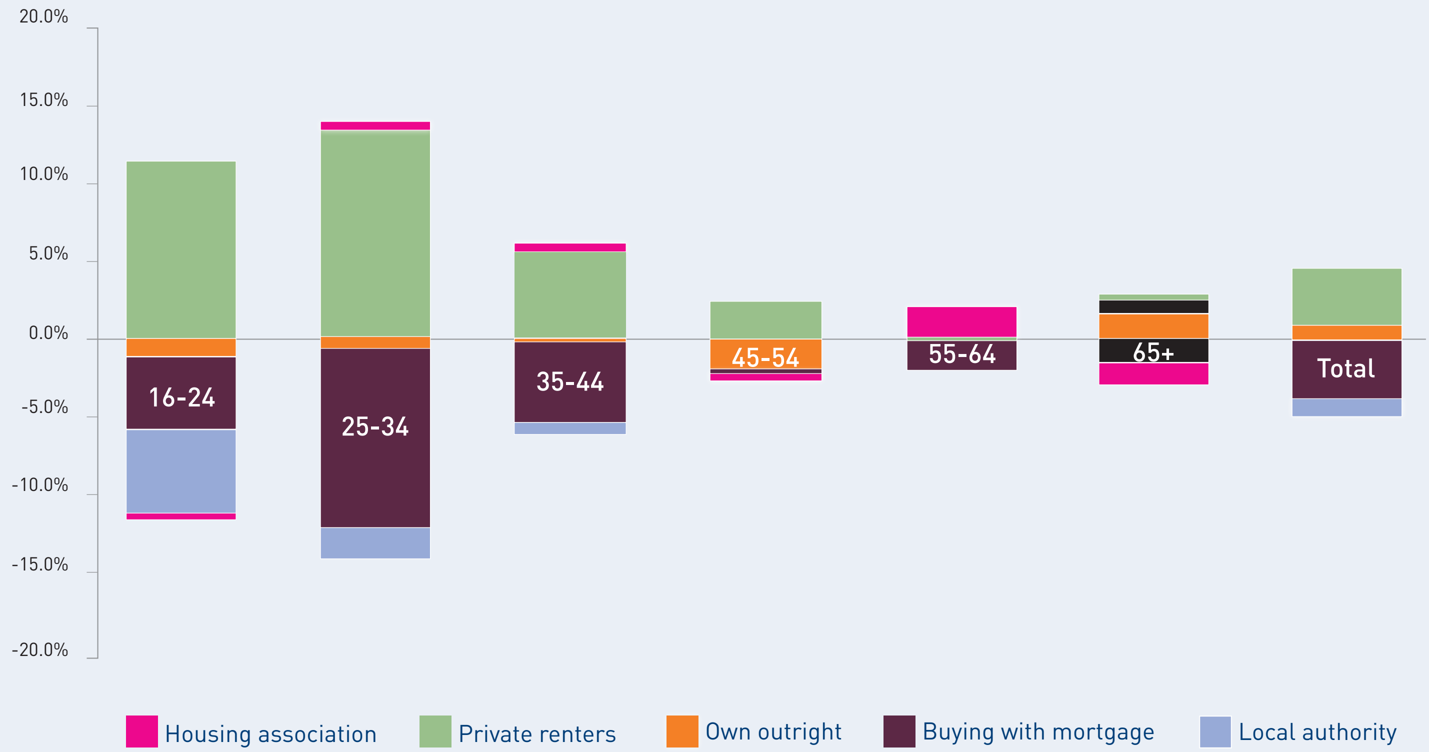


Fig. 12

Tenure change between 2008/09 and 2012/13 by age in England[28]



Housing inequalities

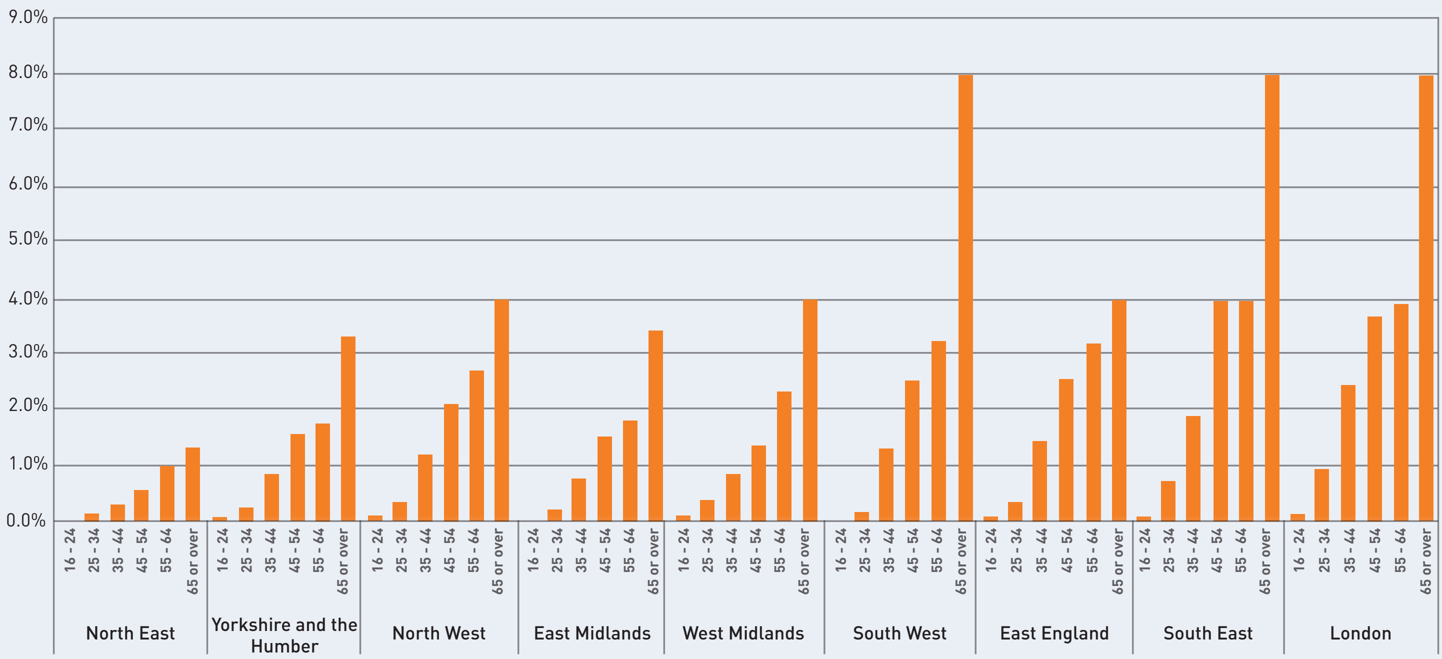
Increasing demand, undersupply of housing and shifts in tenure have affected different people in different ways, particularly in terms of housing costs. On average, home owners with a mortgage spend 20% of their income on paying that mortgage. However, private renters spend 40% on rent while social renters spend 30%[30]. As younger people are significantly more likely to rent than own a home, a larger proportion of their income is spent on keeping a roof over their head, making saving for a deposit harder.

More importantly, a key factor of housing wealth is the luck of the draw – when you were born and where you are located. In fact the chance for home ownership in England – in terms of house prices and earnings – was much greater in the 1970s than it is today. As Figure 13 shows, a large amount of wealth is located with the older age groups across all regions (except for the North East). The baby boomer generation who were able to buy in the 1960s have accumulated a large amount of wealth on the back of house price rises.

There is also an important locational aspect to wealth. As the UK economy moved towards a more service-based economy, most frequently located in the South, high prices (and therefore wealth) have become concentrated there. Indeed, the baby-boomer generation (those aged 55 or over) in the South West, South East and London account for around a third (35%) of total housing wealth in England – proportionally, this is 2.5 times as much as all housing wealth of those aged 16-44 in England.

Fig. 13

Home equity by region and age group[31] (Total of bars = 100%)



It isn't just that a large proportion of wealth is located in the South of England – the average value of wealth is larger too. Average property wealth in London (£239,000) is twice as much as the average property wealth in the North of England (between £108,000 and £120,000) (see Fig.14). This in turn limits mobility across England as people look for jobs, and further accentuates the difference between the North and the South.

Furthermore, after the largest economic crash the country has experienced for a century, wealth value has appeared to concentrate further in London. Between 2006 and 2012, average property wealth in London increased by £19,000 while in the North East it fell by £12,000. The South East and the South West saw no change, on average, to property wealth, despite the crash (see Fig.15). This further concentration may well impact on mobility and provides an insight into wealth inequality across the country.

Market cycles also create housing 'haves' and 'have nots'. For example, an average person born in 1968 would be a first-time buyer by around 29 years old in 1996/7 – the trough of the market – and could benefit from the subsequent large upswing in values. A person

Median net household property wealth[32]

- £180,000 to £239,000
- £134,000 to £180,000
- £120,000 to £134,000
- £108,000 to £120,000

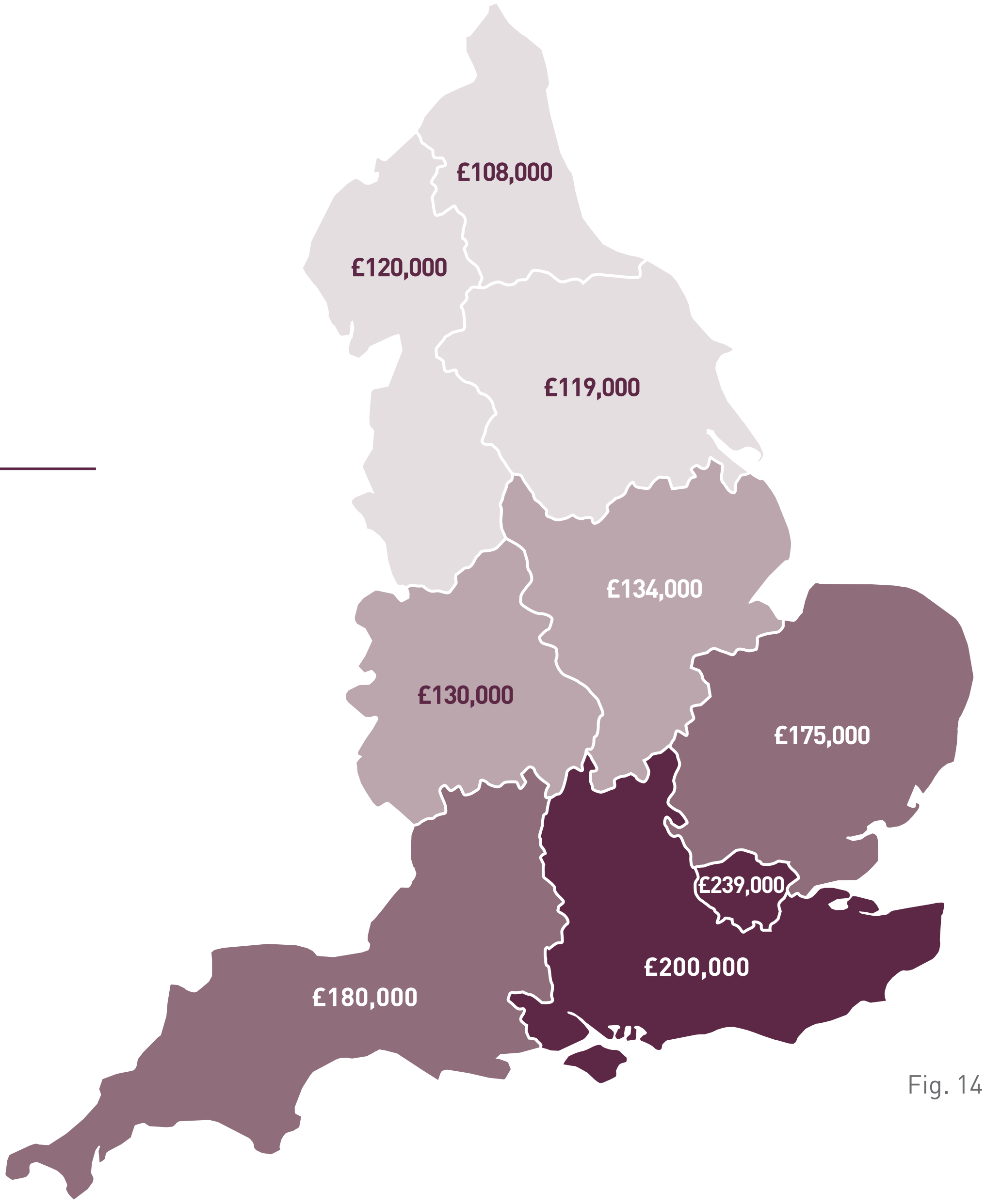


Fig. 14

who was able to buy an average property in Cambridge in 1997 would have 'earned' almost £20,000 a year from their property if they'd sold it in 2007. A person born just one decade later would consequently find it far more challenging to buy their own home there. For this previous generation, buying relatively easily between 1970 and 1995, this must be seen as the exception rather than the norm.

If wealth accumulation continues along this geographical trend future generations' wealth will be increasingly dependent on luck – who their parents are, where the family is located, at what point of the market cycle they find themselves, and how much inherited wealth they have access to. These factors will have a significant impact on mobility, choice and opportunities.

Change in median net household property wealth between 2006 and 2012 [33]

- Increase
- No net change
- Loss of up to £5,000
- Loss of £5,001 - £10,000
- Loss of more than £10,000

Fig. 15

High unaffordability puts strain on the housing benefit bill

The impact of high prices, stagnant wages, decreasing affordability and the subsequent shift of more people to private renting is increasing the housing benefit bill. The total housing benefit bill in England – accounting for inflation – has risen by almost 150% from £8.7bn to £21.5bn in 21 years (see Fig. 16).

The proportional increase in housing benefit between 1991/92 and 2012/13 is twice as large as the increase in education spending and is on a par with health spending (see Fig. 17). Indeed, over the same period, public capital expenditure in housing decreased by 11%[35].

Furthermore, today this isn't an unemployment problem. Not only has unemployment been falling recently[38], the proportion of those claiming housing benefit who are in employment has doubled from 11% in November 2008 to 22.5% in May 2014[39]. This shows that people need assistance with their housing costs on top of their earnings. This is even higher among female workers whose incomes are still considerably lower than male counterparts and more frequently work part-time. Importantly, if this trend continues, in five years' time over one in three people claiming housing benefit will be in employment, (see Fig. 18).

Fig. 16

Housing benefit expenditure in England (£m in 2013/14 prices)[34]

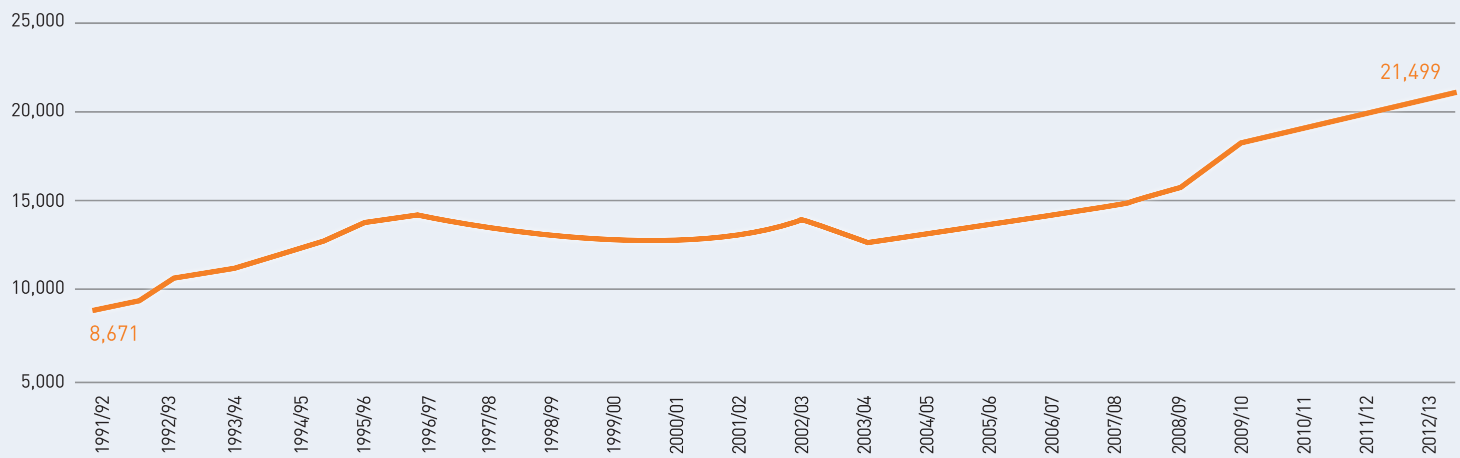
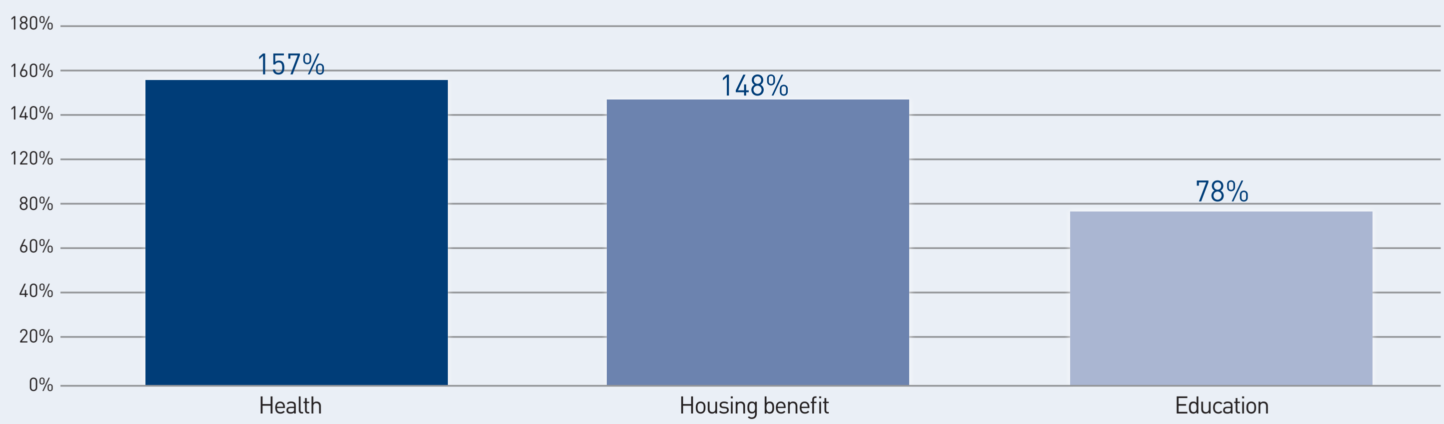


Fig. 17

% increase in real public spending between 1991/92 and 2012/13[36]



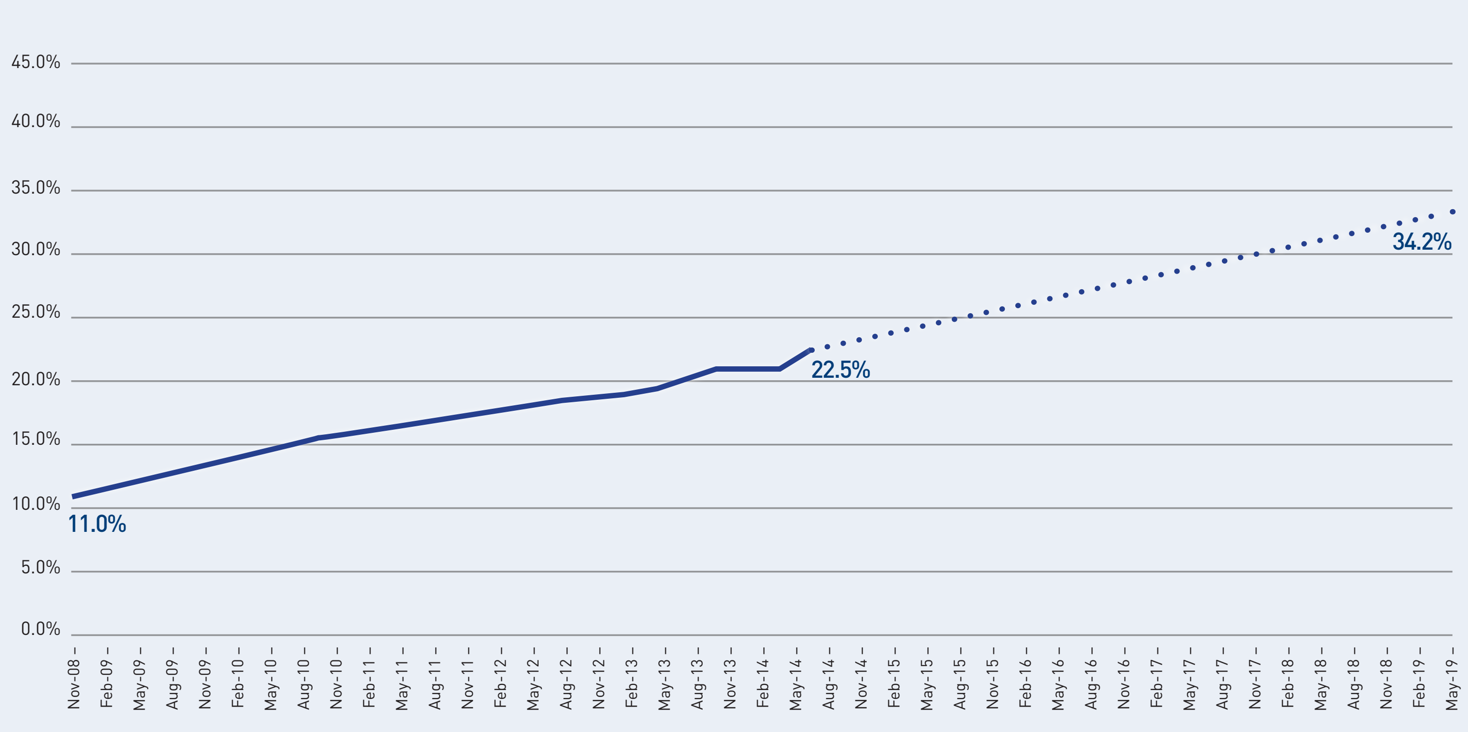
As prices increase, only those on higher incomes (and most frequently those with help from family members) can afford to own a home and so others will have to stay in the private rented sector. If demand for the private rented sector increases without an increase in supply, rents will rise meaning that there will be more households in the private rented sector claiming housing benefit, or ultimately people will face being priced out of a certain area. In fact there has already been a stark rise in claimants living in the private rented sector. Within the last six years the proportion of housing benefit claimants living in the private rented sector has increased from 1 in 4 claimants in 2008 to 1 in 3 in 2014[37].

Between November 2008 and May 2014, there were 570,000 new households claiming housing benefit who were also in work – almost 300 households per day. This increase in the numbers of claimants in employment accounts for more than three quarters (79%) of all new housing benefit claims made within this period.

As one would expect there is a clear correlation between (low) income and the proportion of households claiming housing benefit. However, data also shows that despite this correlation the percentage of claimants has increased most in the second (+6%) and third (+7%) quintiles (i.e. middle-income households of between around £20,000 and £30,000), representing around 350,000 households or two-thirds of all new claims made within this period. Increases among these income groups confirm that it is not only low-income households that are struggling with housing costs but increasingly middle-income households as well.

Fig. 18

% of housing benefit claimants in employment from Nov 2008 to May 2014 and projection until May 2019 (dotted line)[40]



England is made up of many housing markets

There is no such thing as the 'English housing market'. There is large variation across the country with different housing problems requiring varying solutions. Choosing the correct geography to highlight variation whilst capturing where most people live and work – i.e. functional economic areas – can be challenging. Regional analysis often obscures key variations within larger areas while local authority areas can be misleading as many people live in one authority and work in another.

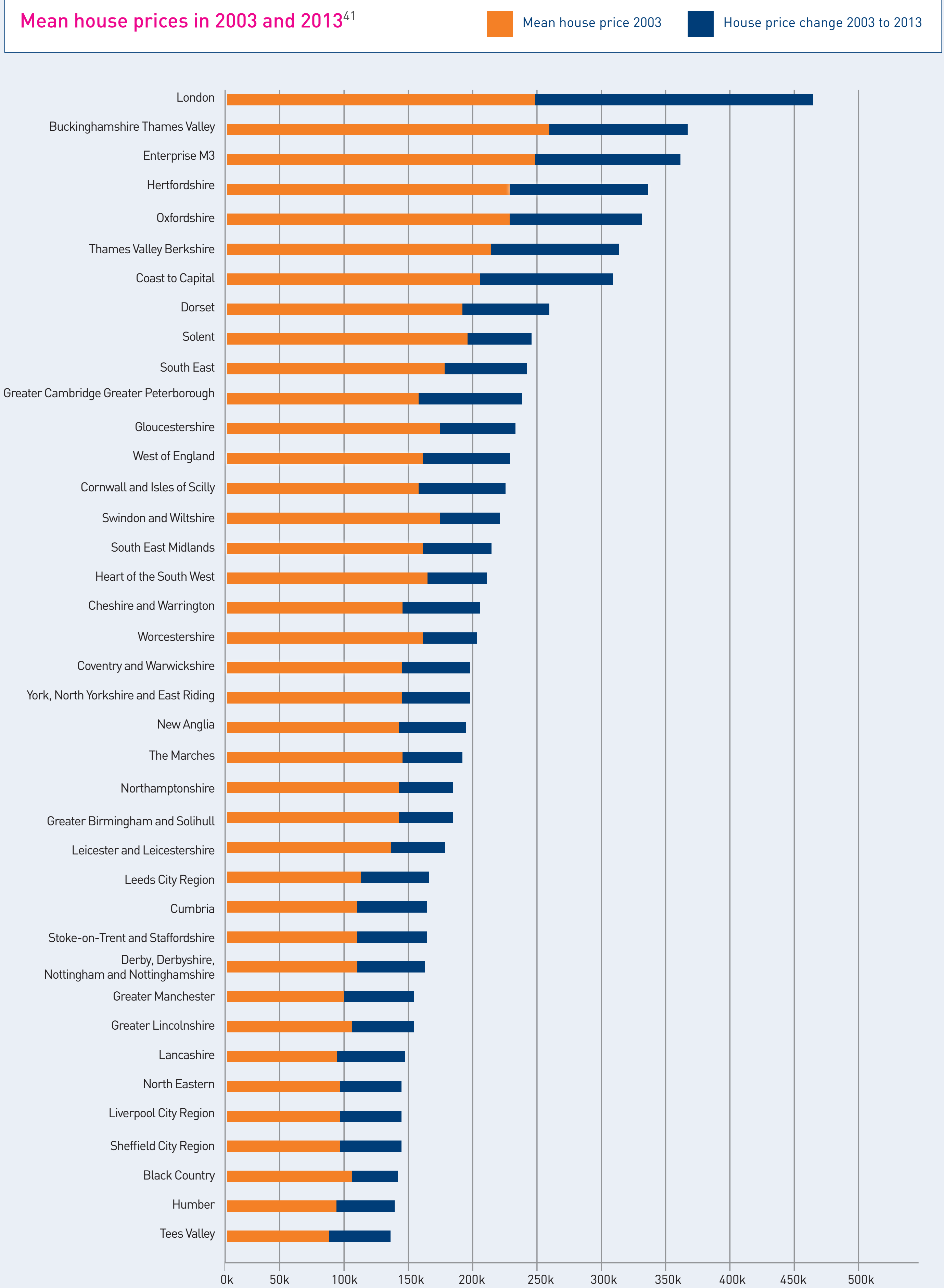
Analysis in this report uses Local Enterprise Partnership (LEP) areas. These reflect a larger local geography and represent the closest government-recognised geography that incorporates all parts of England that shows functional economic areas – i.e. where people both live and work.

As there are distinct and different markets, house prices show large variation. Generally, house prices in high demand areas in the South East and South West are the most expensive. House prices in London were close to £500,000 in 2013; almost doubling in a decade. Other places with high prices include Enterprise M3, Hertfordshire and Oxfordshire which all showed average house prices above £320,000 in 2013 (see Fig.19).

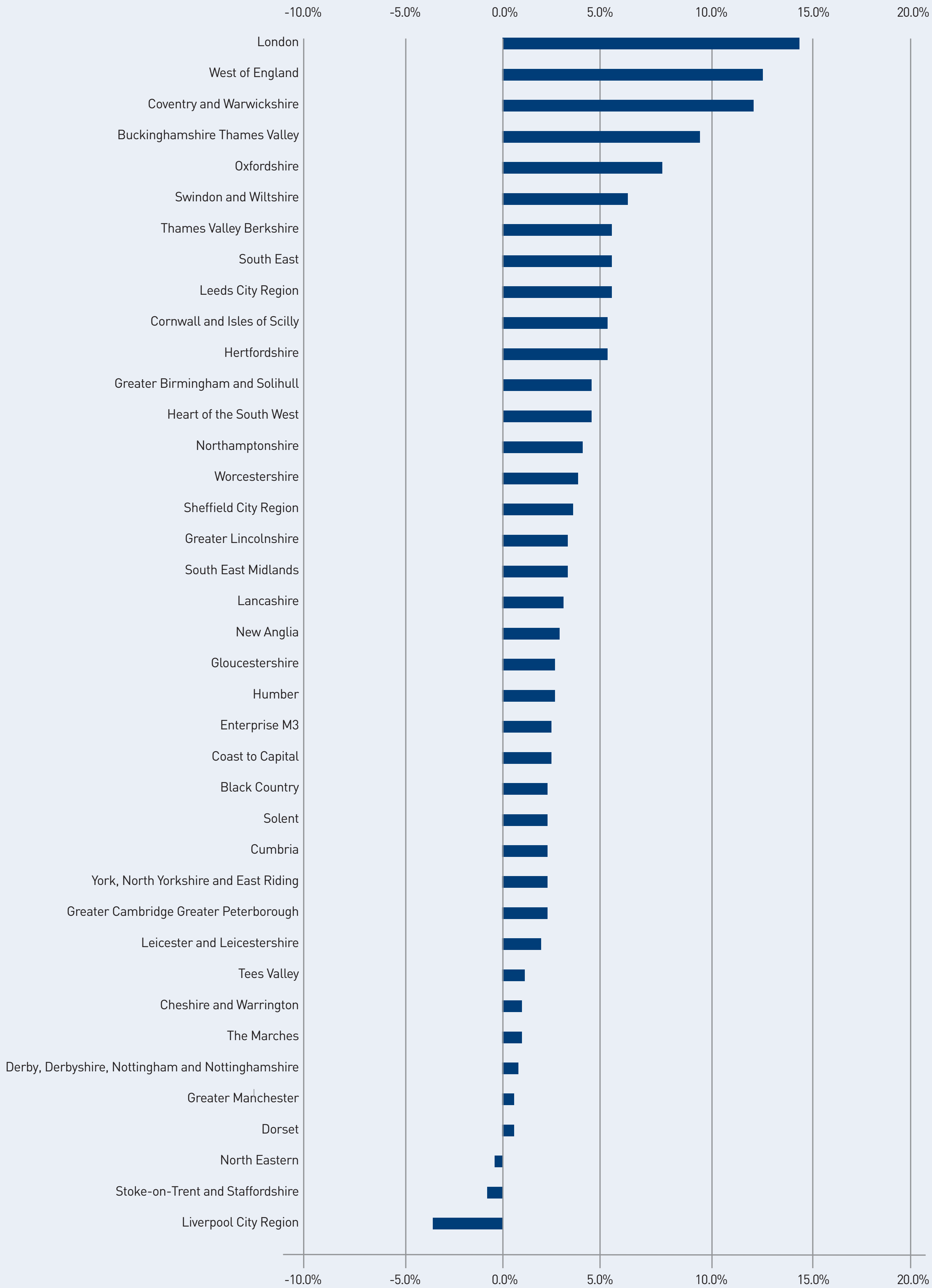
While places at the other end of the spectrum show much lower prices – for example, Tees Valley LEP and Humber LEP both under £140,000 – the increases in the decade have been large at around 55% (see Fig.20).

There is a similar geographical trend when we look at the change in rental prices. Areas in the South East show the largest increase – although it is important to note that we only have data for rents for over the past two years. For example, rents in London have increased by around 15% in two years and by almost 10% in Buckinghamshire Thames Valley LEP. However, there are some interesting and significant outliers with Coventry and Warwickshire LEP showing a large increase – around 11% in two years – and Enterprise M3 LEP showing an increase of just over 3% in two years.

Mean house prices in 2003 and 2013[41]



Private sector rents – % change 2011 to 2013[42]



In order to fully understand the price of a house or the cost of rent we need to relate it directly to salaries in that area. Indeed, economically strong areas will push up both prices of homes and earnings.

Fig. 21 is a map of affordability showing the average house price as a multiple of the average salary. There is a clear trend that the highest unaffordability spans from London – where economic strength pushes up demand – to the South West which has a strong city in Bristol and a highly desirable landscape.

This isn't to say other places are 'affordable'. Places showing ratios of seven or higher i.e. where homes are seven times the salary – the majority of LEP areas – have high unaffordability too.

The disparity in housing markets across England is reflected more starkly within rental affordability (see Fig. 22). Areas in the South show average annual rental costs between 31% and 53% of the average gross annual salary. This highlights how the rental and ownership markets should not be treated separately from each other, as restrictions on buying drive up demand in the rental market and push up those prices.

House price affordability ratios in 2013 (prices as a multiple of earnings) [43]

- 10.6 to 14.35
- 8.77 to 10.6
- 7.6 to 8.77
- 6.42 to 7.6
- 5.92 to 6.42

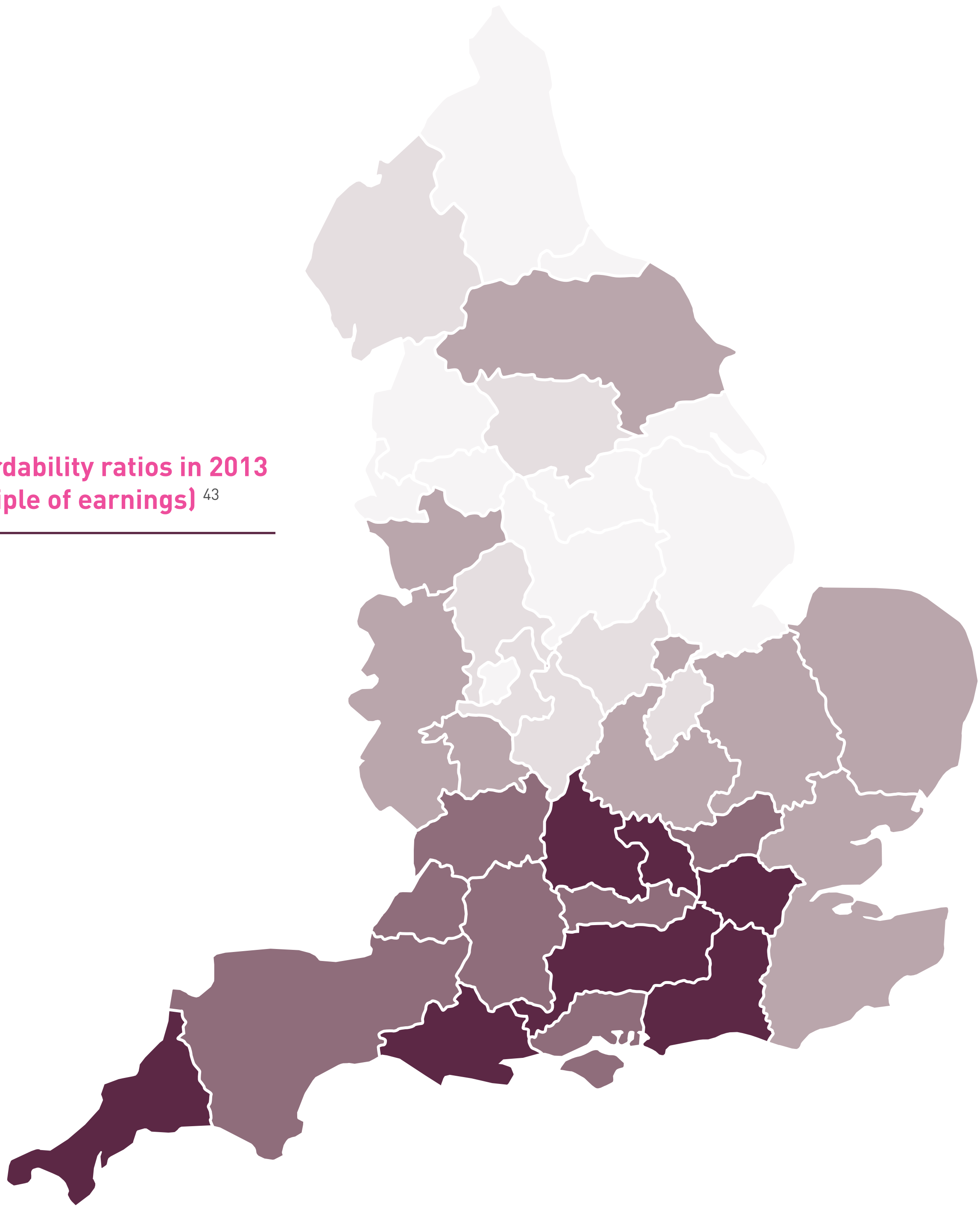


Fig. 21

Economically strong areas with higher job growth and high output – are in high demand from people chasing jobs and opportunities, which again puts pressure on those local housing markets. This is accentuated as there has been a severe lack of new homes built for the past few decades.

Rent price affordability ratios in 2013 (prices as a multiple of earnings) [44]

- 0.373 to 0.533
- 0.314 to 0.373
- 0.282 to 0.314
- 0.261 to 0.282
- 0.228 to 0.261

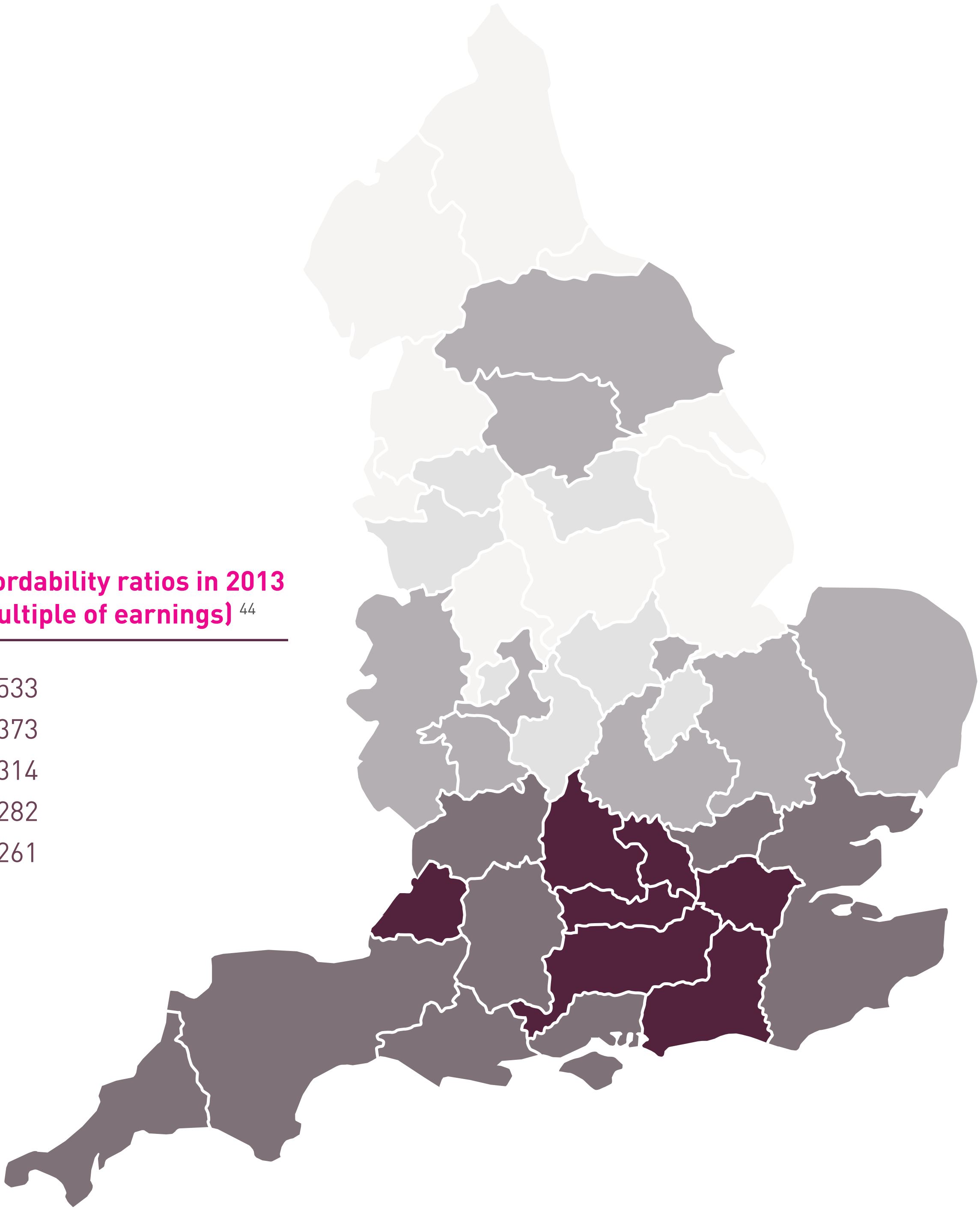


Fig. 22

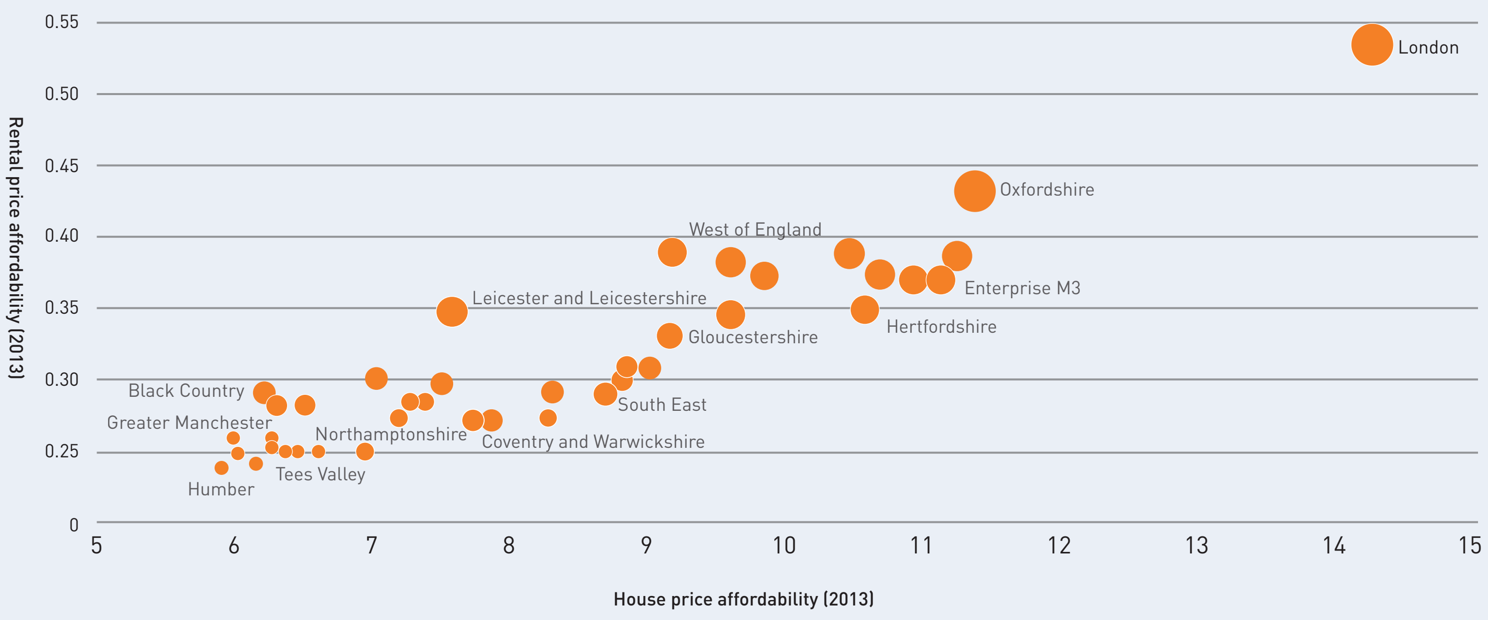
Fig. 23 shows the interrelated nature of house prices and rental costs as a multiple of average salaries. The graph shows that the more unaffordable housing is to buy – for example, in London, a house is more than 14 times the average salary – the larger the proportion of income has to be spent on rent.

Furthermore, there is also a strong correlation between affordability and the size of the average housing benefit award (as shown by the size of bubble) – i.e. the more unaffordable a place is, the larger the housing benefit spend is per claimant. Any attempt to decrease the housing benefit bill has to take account of housing affordability in that area.

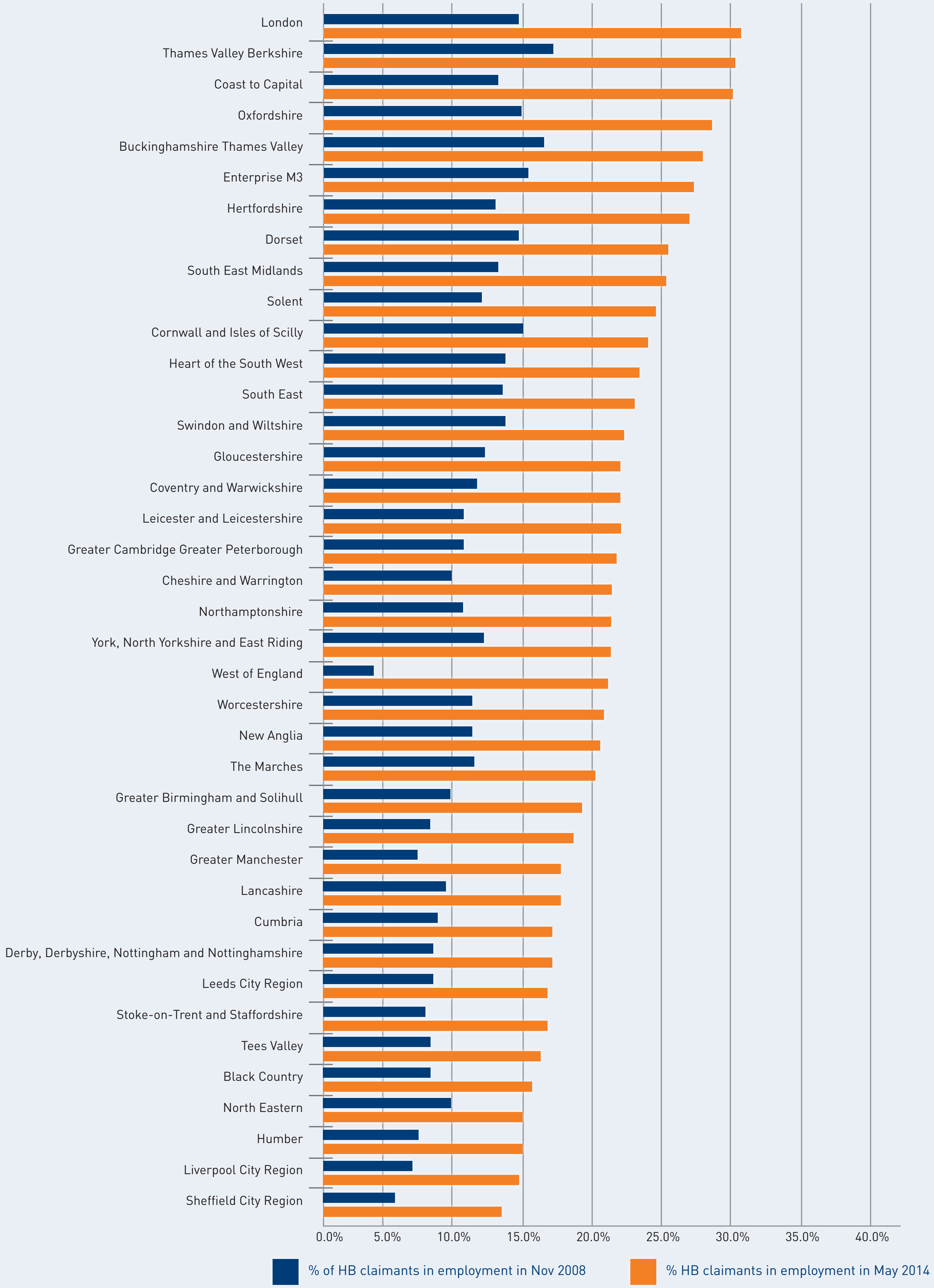
Falling unemployment is not stopping the rise in housing benefit. For all LEPs there has been a large increase in the proportion of people claiming housing benefit and in work since 2008. The biggest increases between November 2008 and May 2014 occurred in the South East and West of England – for example, Coast to Capital and London LEP have seen an increase of more than 16 percentage points while the West of England has seen an increase of more than 17 percentage points.

Fig. 23

Affordability ratios and average weekly housing benefit award per claimant (represented as bubbles)[45]



% housing benefit claimants in employment in November 2008 and May 2014[46]



London is a world of its own

London is a completely different world when compared to other parts of England which is why we have given it a separate chapter. We need to tell the story of the London housing market on its own in order to not colour the challenges facing the rest of the country.

The average house price in London has risen by £41,000 over the last year – a figure which is £8,000 more than the average pre-tax London salary[47]. In order to understand the issues within London we need to treat it separately and dig deeper.

There are profound differences across the 33 boroughs of London, highlighting the need to understand local variation. House prices show large variation across the boroughs. Prime London areas such as Kensington and Chelsea and Westminster show extremely high prices – around three to four times the London average.

The price paid for an average London house is around £500,000 but there are 22 (out of 33) boroughs with a lower average house price. Barking and Dagenham, Newham and Bexley all have house prices at around half of the London average. All the lower averages are for the outer boroughs (see Fig. 25).

Those outer London boroughs have also not had the huge house price rises which some London boroughs have experienced. Over the last decade places such as Barking and Dagenham and Havering saw prices increase by around 30% – an average annual rate of 3% – compared to boroughs in inner London which doubled (see Fig. 26).

Fig. 25

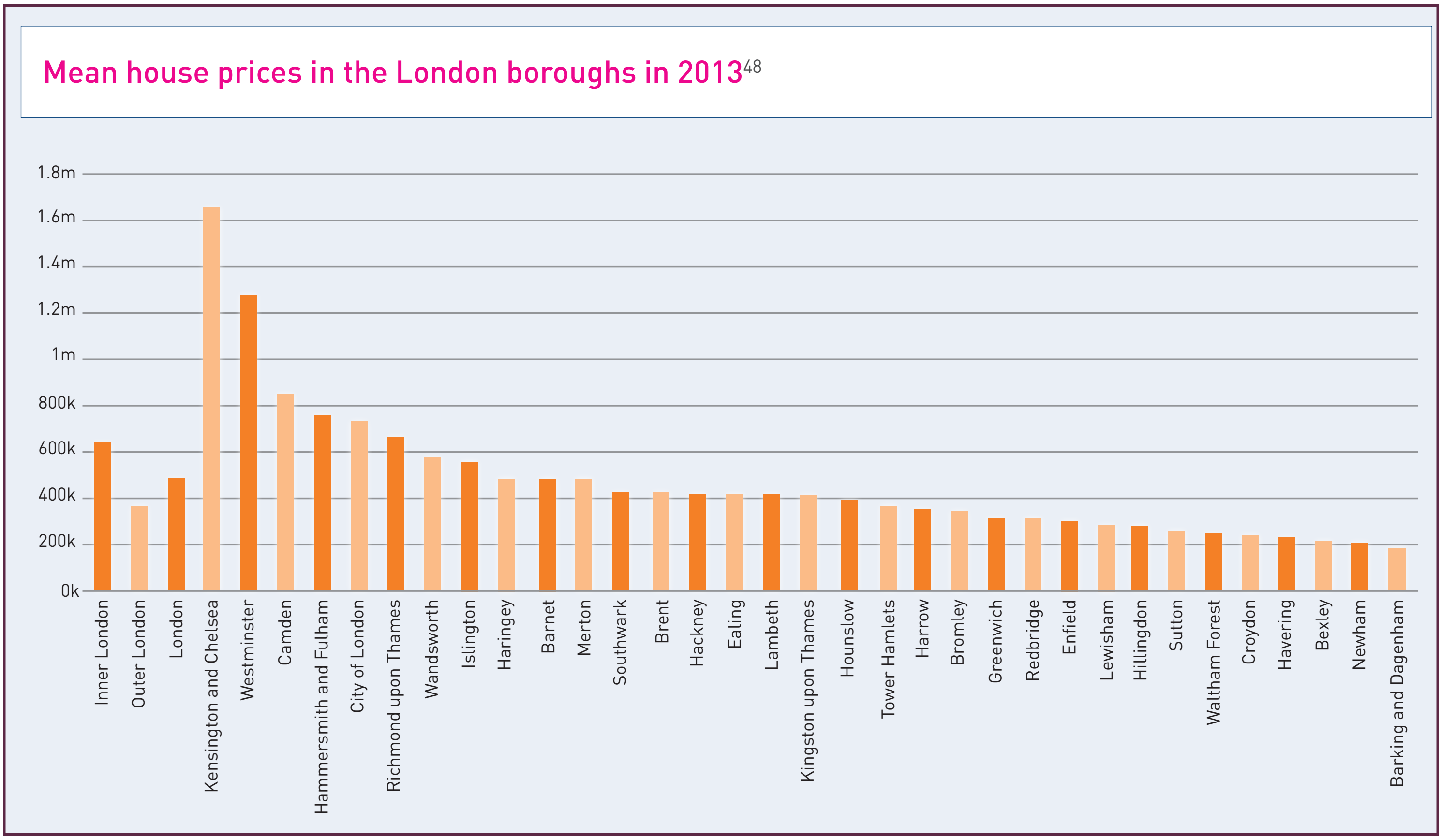
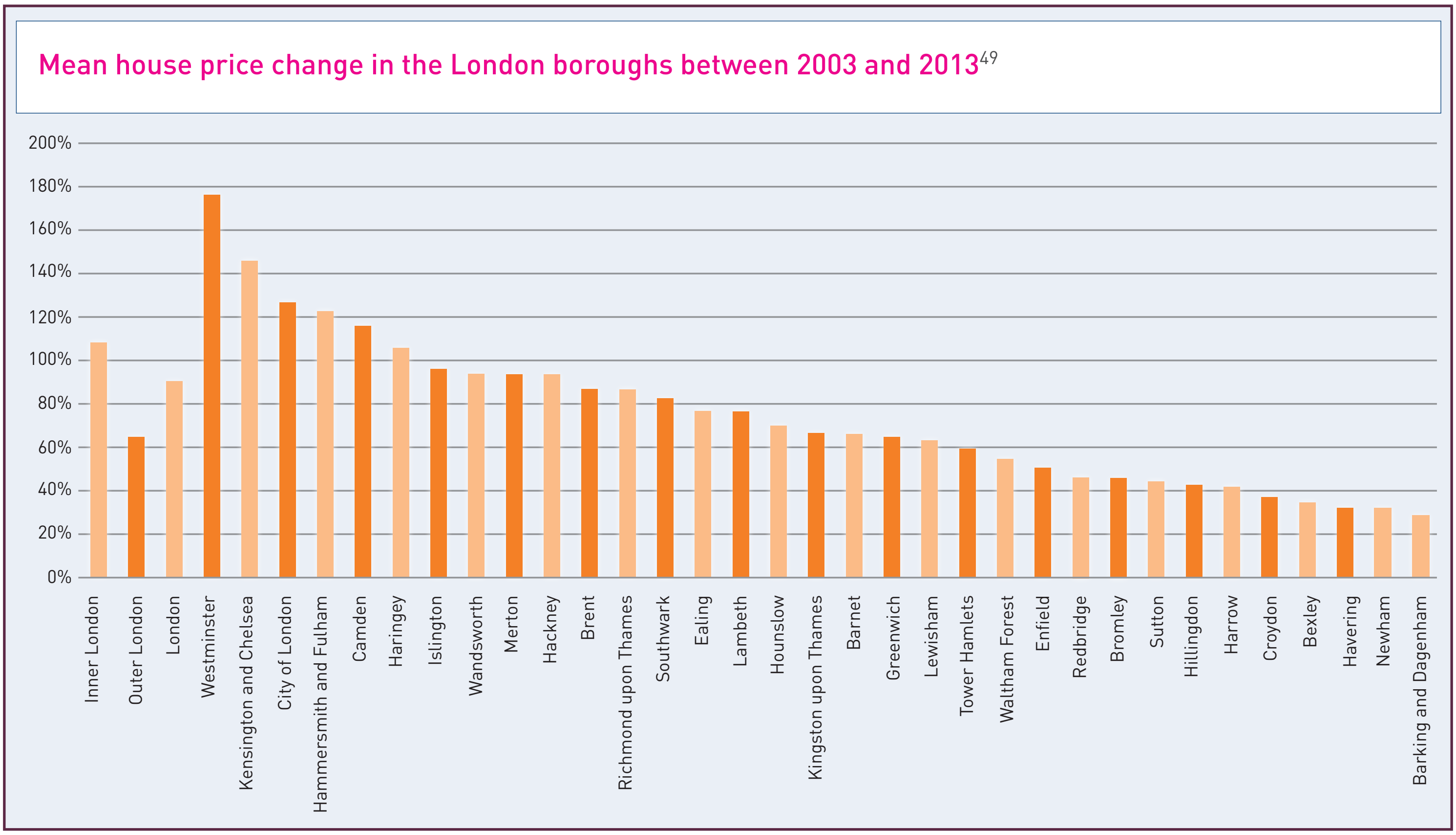

Mean house prices in the London boroughs in 2013[48]
1.8m
1.6m
1.4m
1.2m
1m
800k
600k
400k
200k
0k
Inner London
Outer London
London
Kensington and Chelsea
Westminster
Camden
Hammersmith and Fulham
City of London
Richmond upon Thames
Wandsworth
Islington
Haringey
Barnet
Merton
Southwark
Brent
Hackney
Ealing
Lambeth
Kingston upon Thames
Hounslow
Tower Hamlets
Harrow
Bromley
Greenwich
Redbridge
Enfield
Lewisham
Hillingdon
Sutton
Waltham Forest
Croydon
Havering
Bexley
Newham
Barking and Dagenham

Fig. 26


Mean house price change in the London boroughs between 2003 and 2013[49]
200%
180%
160%
140%
120%
100%
80%
60%
40%
20%
0%
Inner London
Outer London
London
Westminster
Kensington and Chelsea
City of London
Hammersmith and Fulham
Camden
Haringey
Islington
Wandsworth
Merton
Hackney
Brent
Richmond upon Thames
Southwark
Ealing
Lambeth
Hounslow
Kingston upon Thames
Barnet
Greenwich
Lewisham
Tower Hamlets
Waltham Forest
Enfield
Redbridge
Bromley
Sutton
Hillingdon
Harrow
Croydon
Bexley
Havering
Newham
Barking and Dagenham

Affordability across London also varies. Places in prime central London and west London show the highest unaffordability while the outskirts, particularly in the East and South East are relatively more affordable. However, even the places that fall into the most affordable 20% of places have a maximum value of almost ten times the average annual salary – meaning that housing is still not really affordable to most people in these areas (see Fig. 27).

The pattern is broadly similar for those renting too. Areas in the West show high unaffordability but so do many boroughs in the South, particularly along commuter routes (see Fig. 28).

At current house building rates London will face a shortfall of over 700,000 homes by 2031[51]. Crucially, there is also a need for homes in the right places, at the right prices that all people can afford.

House price affordability ratio 2013[50]

- 14.7 to 27.6
- 14.3 to 14.7
- 11.3 to 14.3
- 9.7 to 11.3
- 0 to 9.7

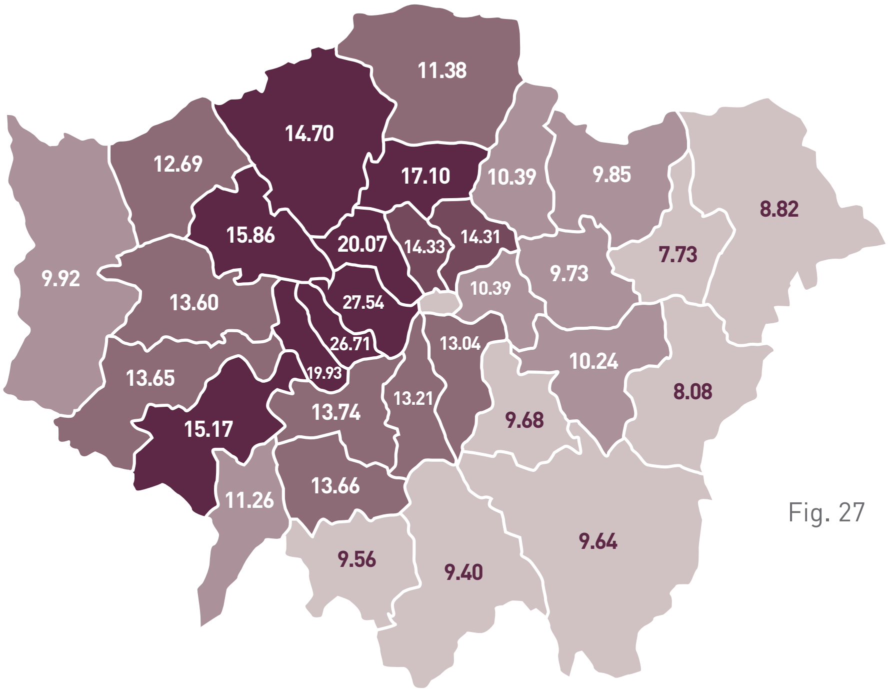


Fig. 27

Rent price affordability ratio 2013[52]

- 0.55 to 0.597
- 0.535 to 0.55
- 0.48 to 0.535
- 0.392 to 0.48
- 0 to 0.392

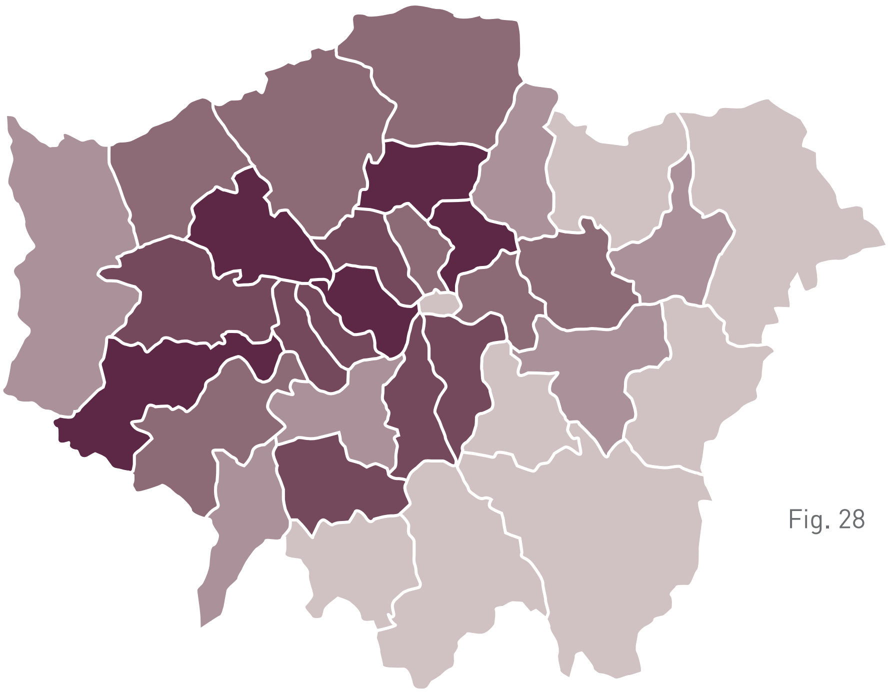


Fig. 28

The role of housing associations

Housing associations will be central to efforts to end the housing crisis. As well as continuing to provide homes for those in the greatest housing need, collectively housing associations will extend their reach and offer to provide homes for all parts of the market, for people of all backgrounds, incomes and need.

Many housing associations are already providing the homes for market rent or sale which the market requires. They do this to meet a genuine housing need, but also in some markets this will generate proceeds that can be used to subsidise affordable housing so that housing costs don't run away from those on the lowest incomes. This role for housing associations will continue to grow as housing needs continue to change. As well as providing great places to live, housing associations also invest in communities and neighbourhoods for the long term by driving skills, education and healthcare projects to name just a few.

The economic impact of housing associations is large too. For every one pound invested in affordable housing, a further £1.42 is generated in the UK economy through indirect and induced multiplier impacts. This represents one of the highest multiplier effects in the UK economy, being greater than that associated with offshore wind investment, financial services and health services. This translates into 47,000 full time jobs supported directly or indirectly by investment in affordable homes. Furthermore, housing associations, through their day-to-day activities, contributed a total of £6.5 billion to UK Gross Value Added (GVA) in 2013, which equates to 0.5% of UK GDP. In doing so, housing associations directly support 146,000 full time jobs in total[53].

And into the future the sector has a thirst to achieve so much more. In *An Ambition to Deliver*, the Federation describes a vision of 2033 where housing associations house one in five people across all tenures. That means the sector building 120,000 of the 245,000 homes this country needs on top of expanding much further the projects and services they deliver for their tenants and wider communities.

End the housing crisis within a generation

Home Truths: Broken Market, Broken Dreams **offers a snapshot of England's housing crisis which has been generations in the making. Along with demographic changes, population growth and austerity, this emergency is the result of successive governments failing to tackle the country's major housing challenges.**

The crisis looks different from one town to the next and local decision makers will play a vital role in driving change. However, with less than a year to go before the General Election it is important politicians from all sides are reminded that leadership, drive and, most importantly, bold ideas from Whitehall and Westminster are an essential antidote to the short-termism that has gone before and to ending the crisis.

That is why the National Housing Federation, as part of the Homes for Britain coalition, is calling for the political parties to look beyond the lifetime of the next Parliament to end the housing crisis once and for all.

We want all political parties to commit to end the housing crisis within a generation. We want the next government to publish a long-term plan within a year of taking office that sets out how they will achieve this.

The Federation believes this plan must describe how the Government will ensure each part of the housing market will work together to deliver: a long-term sustainable supply of new homes; many more of the right homes in the right places with access to employment and social opportunities; homes, both new and existing, that are sustainable and of high quality; and an attractive alternative offer to home ownership that ensures people who rent have a high quality home with 'security of tenure' that meets their needs.

More specifically, the housing crisis can only be ended if the seemingly intractable issues around investment and land are tackled head on. Housing associations also need more control over their own businesses to truly unlock their potential.

The Federation proposes three bold solutions that we want the next government to include in its plan in order to end the housing crisis within a generation:

1. **A new Housing and Infrastructure Bank**
2. **The introduction of Local Land Strategies**
3. **Housing associations to have more control over the rents they set and who they house.**

Working together as a package of significant reform, these policy solutions would support housing associations in reaching their vision of delivering 120,000 homes a year.

A new Housing and Infrastructure Bank

A completely different approach to funding housing in England is needed and the Housing and Infrastructure Bank (HIB), coupled with greater levels of public investment for housing, could significantly increase the supply of new homes. The HIB would:

- Improve the effectiveness of public investment
- Improve access to and reduce the cost of private investment in housing
- Successfully join up house building, land supply and infrastructure provision
- Target investment at strategic outcomes, rather than outputs, which will increase housing supply, improve the quality and energy efficiency of existing homes, upgrade infrastructure and promote local economic growth.

The HIB would be 100% government-backed but operate independently. The Government would capitalise the bank and it would raise money through bond issues, pension funds and other institutional investment, and deposits from new housing ISAs. It would consolidate the different public funding streams, combine with private funding, and invest the money on a long and short-term basis in housing and infrastructure. With the country currently building only half the homes needed, it is only by bringing together public and private funding in this way that we can achieve the scale of investment needed to deliver a step-change in housing delivery. The HIB would lend to all parts of the housing market through capital and equity investment, loans, debt finance and government guarantees. HIB funding would be complemented by existing and other new sources of private finance.

The HIB would move away from individual funding programmes based on outputs in favour of delivering housing outcomes, set by central Government or local decision makers to meet specific housing needs. These outcomes would include regeneration and improving homes and communities that already exist, alongside increasing overall supply.

Local Land Strategies

Local Land Strategies will increase delivery of new homes by ensuring the release of both public and private land is at the heart of planning for housing and ensuring that a fair price is paid for land. These strategies would:

- Create certainty for developers and land owners (both public and private) through a direct link between the planning and delivery of new homes.
- Put local authorities at the heart of decision making for the best locations for new homes by mapping out all the available land in their area.
- Ensure that a fair market price is paid for land and that developers compete on the quality of their homes rather than the amount they are able to pay.

A statutory duty would be placed on local authorities to produce a Local Land Strategy to link land with existing housing planning mechanisms. Local authorities are best placed to map and assess the most effective use of land and identify sites to zone for housing. This would include poor quality greenbelt land that could be built on where there is insufficient brownfield. Zoning would have the same weight as outline planning permission and speed up development. Unlike the current system, landowners would agree a fair market price upfront at which land will be made available for development, but would benefit by sharing in any subsequent uplift in value resulting from development. A centralised government body would oversee and assist with the release of public land and step in to ensure public land is coming forward where there are delays.

Local Land Strategies would ensure public bodies get the most from their land by coordinating its release with other services. The right to develop public land would be sold through a tender process, based on outcomes. Where private land owners have agreed to zone land for housing but do not bring it forward, local authorities would be able to charge a levy based on the revenue they would expect from housing on the site. As a last resort, local authorities could use a streamlined Compulsory Purchase Order process to acquire sites.

Give housing associations greater control over their businesses so they can play the fullest role possible in ending the housing crisis

Delivering 120,000 homes a year (across a range of tenures) by 2033 will be challenging for housing associations; it represents a significant increase from current output. But this target is feasible with the right system in place.

Housing associations could develop many more new homes across all tenures and ensure a genuinely affordable offer for all their tenants if the next Government lifted restrictions on how housing associations set their rents, who they house and how their properties are valued.

Much of housing associations' income is externally controlled by rent levels set by central government which restricts housing associations from developing homes at prices that are right for each local community and prevents them offering a genuinely affordable rent for their tenants. By giving housing associations the freedom to set individual rents within an overall agreed limit they could provide a range of sub-market rents that are much more reflective of the local housing need.

Housing associations also need more say over who they house so people waiting for an affordable home get one that best suits their needs. With housing associations able to make the best use of their homes this would ensure public subsidy is being used the most effectively. It would also help housing associations focus on delivering sustainable communities for people on all income levels. Naturally, housing associations would continue working in partnership with local authorities to assist in meeting statutory housing need and ensuring those with the greatest housing needs are prioritised.

By allowing all housing association properties to be valued fairly housing associations would be able to borrow more money to develop new homes. Housing associations own over 1.3 million properties transferred from local authorities. The valuation of these properties for loan purpose is restricted by Government legislation. If these restrictions were lifted, housing associations would be able to value these properties at a higher value, releasing considerable additional borrowing capacity for new homes, at no cost to the public purse. For one housing association alone, this could release up £320 million in additional borrowing capacity, significantly increasing the money they could invest in new homes.

Endnotes

1 Holmans, A. – New estimates of housing need and demand in England 2011-2031 TCPA (London)

2 YouGov poll of 1651 adults between 18 and 19 August 2014 on behalf of National Housing Federation. The figures have been weighted and are representative of all GB adults (18+)

3 Local Enterprise Partnerships (LEPs) comprise of local authorities. Where a local authority is in more than one LEP, a jagged line has been drawn to split that authority between the LEP areas. Contains Ordnance Survey data © Crown copyright and database right 2013, Licence No. 100031183

4 YouGov poll of 1651 adults between 18 and 19 August 2014 on behalf of National Housing Federation. The figures have been weighted and are representative of all GB adults (18+)

5 Conservative Party website – http://www.conservative-party.net/manifestos/1951/1951-conservative-manifesto.shtml

6 Politics Resources – http://www.politicsresources.net/area/uk/man/lib45.htm

7 Labour Party website – http://www.labour-party.org.uk/manifestos/1959/1959-labour-manifesto.shtml

8 British Historical Statistics – Cambridge:1988 (years 1923-1948), Live Table 241 – DCLG (years 1949-2012)

9 Mortgage Interest Relief at Source. The MIRAS scheme enabled borrowers to get tax relief on mortgage interest at the time the interest was paid.

10 Office for National Statistics (ONS) – 2011 Census – Population and Household Estimates for England and Wales (2012), Figure 10

11 Nationwide data

12 Champion, T. – Population movement within the UK – ONS (London: 2005)

13 Lindsay, C. and Doyle, P. – Experimental consistent time series of historical Labour Force Survey data (ONS: 2003)

14 Nationwide data

15 Nationwide house price data; Lawrence H. Officer, 'What Were the UK Earnings and Prices Then?' Measuring Worth, 2012 – Fig. 4 shows the affordability ratio the average house price as a multiple of the average income – with decade averages.

16 Adapted from IMF methodology found in this paper http://www.imf.org/external/pubs/ft/scr/2014/cr14234.pdf

17 Household projections by Holmans, A. – New estimates of housing need and demand in England 2011-2031 TCPA (London); Housing completions based on three-year average (2011/12-2013/14) projected forwards to 2031 – DCLG Live Table 253.

18 Council of Mortgage Lenders data – First time buyers; ONS – GDP deflator s at market prices (2014)

19 Note this ratio is lower than in Fig. 4 as it only uses Council of Mortgage Lenders data of those who have managed to secure mortgages. The data in Fig. 4 looks wider than that and uses averages of incomes and prices as estimates.

20 Council of Mortgage Lenders data

21 Council of Mortgage Lenders data

22 Council of Mortgage Lenders data

23 Kuenzel, R. and Bjørnbak, B. – The UK Housing Market: Anatomy of a house price boom (ECFIN: 2008)

24 Council of Mortgage Lenders data

25 Department for Communities and Local Government (DCLG)

26 DCLG - English Housing Survey data, DCLG Table 104 and Table 801.

27 DCLG – English Housing Survey 2012/13

28 DCLG – English Housing Survey 2012/13

29 DCLG – Public Attitude to Housing in England (2011)

30 DCLG – English Housing Survey 2012/13

31 DCLG – English Housing Survey 2012/13

32 ONS – Wealth and Assets Survey 2010/12

33 ONS – Wealth and Assets Survey 2010/12

34 DWP – Benefit expenditure and caseload tables 2014 (https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2014)

35 HM Treasury – Public Expenditure Statistical Analyses – Table 4.3

36 HM Treasury – Public Sector Expenditure tables; Department for Work and Pensions data.

37 DWP – Benefit expenditure and caseload tables 2014 (https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2014)

38 ONS – Labour Market statistics

39 DWP – Benefit expenditure and caseload tables 2014 (https://www.gov.uk/government/publications/benefit-expenditure-and-caseload-tables-2014)

40 DWP; NHF projections

41 Land Registry data; NHF LEP analysis

42 VOA rental data; NHF LEP analysis

43 Land Registry data; NHF LEP analysis; Contains Ordnance Survey data © Crown copyright and database right 2013, Licence No. 100031183

44 VOA data (2013); NHF LEP analysis; Contains Ordnance Survey data © Crown copyright and database right 2013, Licence No. 1000311833

45 Land Registry data, NHF LEP analysis; VOA rental data, NHF LEP analysis; ASHE earnings data, NHF LEP analysis; DWP data

46 DWP data; NHF LEP analysis

47 Land Registry data, NHF LEP analysis; ASHE earnings data, NHF LEP analysis.

48 Land Registry data

49 Land Registry data

50 Land Registry data – 2013 and ASHE data 2013; Contains Ordnance Survey data © Crown copyright and database right 2013, Licence No. 100031183

51 Household projections by Holmans, A. – New estimates of housing need and demand in England 2011-2031 TCPA (London); Housing completions based on three year average (2011/12-2013/14) projected forwards to 2031 – DCLG Live Table 253.

52 VOA data – 2013 and ASHE data 2013; Contains Ordnance Survey data © Crown copyright and database right 2013, Licence No. 100031183

53 Centre for Economic and Business Research analysis for National Housing Federation (2014)

54 Centre for Economic and Business Research analysis for National Housing Federation (2014)

The National Housing Federation is the voice of affordable housing in England. We believe that everyone should have the home they need at a price they can afford. That's why we represent the work of housing associations and campaign for better housing.

Our members provide two and a half million homes for more than five million people. And each year they invest in a diverse range of neighbourhood projects that help create strong, vibrant communities.

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#housingcrisis