

Making Housing Affordable After Covid-19

A follow up report from
the Affordable Housing
Commission

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**Affordable
Housing
Commission**



Contents

- 3 Executive summary
- 4 Recommendations
- 4 The broken housing system exposed
- 6 Affordable housing and the recovery
- 7 The decline of social housing
- 8 The case for more social and affordable homes
- 9 Scale up the investment
- 10 Role of the private rented sector
- 10 More decent homes
- 11 Buying properties for social rent
- 12 Support planning gain for social housing
- 12 Reform the land market
- 13 Rent protection in the PRS
- 13 Strengthen safety nets
- 14 Help struggling homeowners
- 14 Extend Help to Buy
- 15 About this report
- 15 End Notes

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

This report takes forward the Commission's findings and recommendations, captured in the widely commended report '**Making Housing Affordable Again: Rebalancing the Nation's Housing System**', which was published at the start of Coronavirus lockdown in March 2020.

Executive summary

A policy change in favour of social and affordable housing will be key to a post Covid-19 recovery. Besides providing more – much needed – genuinely affordable homes, increasing investment in social housing offers the opportunity to support jobs and local growth, improve the nation’s ageing housing stock, reduce carbon emissions, and combat poverty.

The worry is that as the emergency measures are phased out the crisis will return and worsen. An economic downturn will hardly help. Indeed, a recession will only amplify the deep-rooted problems of affordability, especially for struggling renters.

Without urgent action to increase the supply of affordable housing the gap between housing need and the supply of low-cost housing will widen over the coming years. More households will have no choice but to live in the private rented sector, which as the Commission’s work has shown, is ill suited to housing low income households.

The Commission forecasts that without urgent action to increase the supply of affordable housing the gap between housing need and the supply of low-cost housing will widen over the coming years. Without a step change in supply, the affordable housing gap is likely to grow to 500,000 homes over the coming five years.

Weak housing market conditions, however, present new opportunities for social landlords to counter this trend. Government counter-cyclical intervention – with grant rates for social housing back to where they were after the global financial recession – would not only help kickstart the economy but begin to rebalance the housing system.

The Commission believes a different scenario is possible. If some developers are struggling to sell and developments are stalled, and if some private landlords are wanting to exit the market, then this is a moment for social landlords to step in.

Decisive action by central government coupled with extraordinary effort by local government and the third sector, has led to a dramatic reduction in the numbers of people sleeping rough. The Commission commends this action and wants to see its momentum sustained. Other promised interventions in the housing market, including government actions on renters’ rights, fire safety and home insulation are also welcome (although government’s recent Green Homes scheme should be targeted at the poorest households across all tenures, not just homeowners).

An injection of extra funding for social rented homes in particular would complement these new interventions. With government backing the social housing sector could also help the build out of private homes and support the scaling up of ‘offsite’ housebuilding.

The Commission is not advocating a housing stimulus focused exclusively on social and affordable housing. Government, for example, could further support first time buyers (FTBs) by reforming and extending Help to Buy to the existing market.

The Commission believes that a counter-cyclical focus on social and affordable homes makes economic and social sense and offers value for money. Failure to act will further reduce the number of secure and affordable homes and plunge more households into poverty.

Recommendations

The Commission recommends that government – in partnership with local government and the housing sector – takes the initiative to put in place a 12 point housing-led recovery plan. This should include:

- > Increase investment in a scaled-up and fast tracked social and affordable housing programme, with grant rates returning at least to 2010 levels
- > Establish a new ‘Housing Conversion Fund’ to help social landlords and community organisations to acquire developers’ unsold homes, and to buy rented properties from over-stretched buy-to-let landlords, and down-at-heel PRS properties and empty homes
- > Reform the land market, based on recommendations from the Letwin Review to get homes built out faster and to ‘capture’ land value for social benefit
- > Enable Councils to take back control over Permitted Development Rights
- > Replace the unaffordable ‘Affordable Rent’ model with more social renting (based on rents at a third of household net incomes of the intended occupiers)
- > Make discounted ‘First Homes’ additional to, not replacements for, planning gain obligations for affordable renting – thereby preventing a reduction in the most urgently needed homes
- > Reform and extend Help to Buy to existing properties, targeted at helping lower income FTBs
- > Give Councils full discretion over Right to Buy discount levels and the opportunity to recycle 100% of sales proceeds into new social rented homes
- > Strengthen the safety net for renters who struggle with housing costs, including reviewing eviction protection, sustaining changes to local housing allowances and reforming Universal Credit
- > Cap annual rent increases in the PRS to an index of income growth for a fixed period (as proposed in Scotland), alongside ending Section 21 ‘no-fault’ evictions
- > Protect homeowners by reducing delays before payment of Support with Mortgage Interest and making the SMI a grant not a loan
- > Set a target to provide affordable housing opportunities for all by 2045, based on a new definition of affordability which relates to incomes not market prices

The broken housing system exposed

The pandemic has exposed the structural weaknesses in the current housing system, especially the high cost of housing for many vulnerable households and concerns over housing insecurity and suitability. It has also placed the spotlight on poor housing quality – not least in new build private rented housing – and the importance of amenity space.

Government has intervened to avoid evictions and destitution in the short-term. However, temporary protection for renters and homeowners – alongside the Job Retention Scheme – is being phased out. This will affect millions of people, many of whom will have to rely on benefits for the first time.² Others will face a financial cliff edge and grapple with debts and irregular work.³

Housing supply – and particularly social and affordable homes – fell sharply during the lockdown and is only slowly increasing. Given the already wide gap between supply and demand, this is a cause for concern. Without a sustained increase in housing provision the national supply backlog could increase to well over its current level of 1.2m homes.⁴ Affordability problems will quickly return, especially in high demand areas.

Housebuilders are likely to adjust their build-out rates to market conditions, wary of the consequences of a sustained fall in demand and values. Latest forecasts suggest private housing delivery could fall this year by over 50,000 and total completions drop to under 150,000 a year up until 2024/25.⁵ Research by Shelter and Savills suggests that without action over the period to 2024/25 some 300,000 homes that would have been built will not materialise.⁶

Those social landlords currently building for market sale will struggle in a housing slump to recycle enough profits to cross-subsidise social rented homes at previous levels.⁷ Less development also means fewer social and affordable homes from planning gain (as development is stalled and concerns are raised over the financial viability of schemes).

All households (and potential FTBs hit by proposed increases in minimum deposits) will be affected by the downturn. However, struggling renters – households the Commission showed who were under the most housing stress prior to the pandemic – are at the greatest housing risk. Low income households (young and old), and especially those with no savings and in precarious employment, are particularly exposed.⁸ Many more households will worry about the possibility of eviction, particularly in the PRS where rents are higher.⁹

Unaffordable homes: The Commission's research in 2019 reported one in five households were under housing stress (4.8m households). This represents almost 40% of those in the lower half of the income distribution. Around 1.3m are in the social housing sector, where rents are lower but so are incomes, 1.5m are in the owner-occupier sector, a large proportion being older home owners in unfit property, and 2m in the PRS, where there are more households devoting over 40% of their incomes to rent. Housing costs have risen for poorer families – including for those on benefits; the share of social renters reliant on housing benefit whose rent is fully covered has fallen from 70% in 2010-12, to around 50%. Around 90% of income growth for the lowest-income families has been absorbed by higher housing costs (equivalent to a £1,200 reduction in living standards).

The Commission's evidence showed that the housing system has become seriously unbalanced, with social renting being replaced by private renting and with homeownership levels declining significantly for 25-44 year olds.¹⁰ As the housing market contracts and social housing falls the tenure imbalances may start to widen. The impact is likely to be most evident in the PRS, especially in high demand areas where rental values are more resilient.¹¹

Government support for FTBs will help some renters get on the housing ladder, but buying even a discounted shared ownership home will remain difficult for most low to mid income households. Fewer high-loan to value mortgages, lower savings due to high rent levels and flat incomes growth, and the threat of unemployment will all continue to constrain the ability of households to raise a deposit, even if house prices fall. Without the 'bank of mum and dad'¹² deposits in many areas will continue to be out of reach of most renters.¹³

Affordable housing target: The Commission calls for a new housing vision: “that no child born today should face living in housing that is unaffordable for them by the time they are likely to form a household of their own. Across tenures, this would mean access to affordable housing opportunities for all by 2045”. A more meaningful and useful definition of affordability should support this vision, with the affordability threshold at the point when rents or purchase costs exceed a third of net equivalised household income (and taking account of related affordability issues, such as housing quality, overcrowding, adequacy of housing benefit, household size and regional variations). An incomes-based approach to affordability would also enable the development of new rent models for low income households, such as living rent with rent levels linked to average local incomes, rather than to rents charged in the market.¹⁴

Public opinion is strongly disposed to making housing affordable again, especially for essential workers – many of whom remain trapped in unaffordable housing.¹⁵ The Commission’s polling before Covid-19 showed that two-thirds of people believed there was a national crisis over affordable housing. Recent polling revealed that since the Covid-19 outbreak one in five are worried that they will not be able to afford their rent or mortgage in the future.¹⁶

Affordable housing and the recovery

The prospect of an economic recession is now at the forefront of people’s minds.¹⁷ Business confidence remains fragile and house prices could fall sharply, at least in the short-term.¹⁸

However, falling house prices over the short term will have only a marginal impact on affordability: property prices would need to fall dramatically to make home ownership theoretically affordable for a single person on an average income.¹⁹ Furthermore, without a quick recovery and much stronger earnings growth leading to FTBs is likely to remain subdued, partly to ensure new home buyers do not fall into negative equity.

Private rents – which the ONS figures show to have reached record levels prior to Covid-19²⁰ – are also expected to fall slightly in the short term, but most analysts expect a bounce back in 2021. Social rents, meanwhile, are expected to rise at inflation (consumer price index) plus 1% until 2025, although there are exemptions. For those households experiencing unemployment or underemployment, rents overall are unlikely to adjust downwards as much as their individual loss of income.²¹

In previous recessions the social housing sector has acted counter-cyclically to help prop up supply and stimulate construction and other housing related activities. Social landlords are willing to step in again and increase the volume and scale of social and affordable homes if supported to do so – even though it will be harder to deliver in a downturn for those who rely on profits from open market sales to cross-subsidise new social housing.

Affordable Rent model: Affordability problems have been compounded by the expansion of the 'Affordable Rent' model, which allows social landlords to offer tenancies at rents of up to 80% of market rent levels within the local area (around 60% in London). This rent model – which now covers about a quarter of new general lettings by housing associations – is mostly unaffordable for lower-paid workers not receiving housing benefit.²² Replacing affordable social rented homes with unaffordable homes clearly fails to meet housing need of low income families.²³ If transitional funding is available and where financially viable, social landlords which have built and converted homes to Affordable Rent should aim to return the homes to social rent or otherwise to intermediate rent, when tenancies end.

The financial viability of mixed-tenure housing schemes without government grant had already become stretched before Covid-19. Now it is clearer than ever that developments with social and affordable homes will require higher levels of subsidy. This creates a problem as current spending commitment on affordable housing – under the Affordable Housing Programme – only partially covers social rented housing and less so than under previous programmes.²⁴

Despite the current challenges around fast tracking development, a kickstart house building and retrofit programme focused on social and affordable homes achieves multiple policy objectives. It also compares favourably with other investment options.²⁵

Arguments about the precise benefits of a housing kickstart programme can mask the counter-factual costs on non-intervention. For example, without a major housing stimulus the government will fall short of its house building target of 300,000 new homes a year. As the Commission's research shows, the loss of home will also intensify housing stress and create extra costs, including a higher health and welfare costs and negative impacts on workforce recruitment and retention.²⁶

The decline of social housing

The stock of social rented housing in England has been falling for some time. Over the period 2012-19 the net loss totalled 181,000 social rented homes.²⁷ In relative terms social housing has shrunk from 20% of all housing in 2001 to 16.7%, with local authority housing down to only 6.5%. Private rented housing has meanwhile doubled over the same period to 4.7m homes (19.4% of the total) and homeownership has steadily fallen.²⁸ On current trends, over 25 years the proportion of social rented properties could decline to only 11% of the housing stock.

Best estimates of housing need suggest we should be building at least 90,000 social rented homes a year (plus 25,000 shared ownership and 30,000 intermediate rented homes).²⁹ This is the rate of social house building in the 1950s, 60s and 70s and in part reflects the large backlog that has arisen since 2010.

However, as the level of need has risen, the supply of affordable housing has fallen. The gap for social rented homes is particularly acute, with the total annual supply of social rented housing (including homes from planning gain) falling to under 10,000 a year.³⁰

Overall net additional supply of affordable housing is likely to be around 100,000 homes a year short of the growth required to meet growing housing need – some half a million affordable homes short by 2025.³¹

Most councils include social and affordable housing requirements in their local plan and aspire to meet local housing need. The problem is the homes have not been delivered. This is primarily because of the lack of subsidy, but also due to a panoply of obstacles to the building of social housing – as well as rapidly rising costs.³² According to the CIH, only 11% of new homes built in England are now at genuinely affordable social rents, compared with nearly 70% in Scotland and over 80% in Wales.³³

The Commission's work has also highlighted additional cost pressures on social landlords, including investment to meet new building and fire regulations. The total retrofit costs of fire safety improvement are unknown, although they are expected to cost the social housing sector several billion.³⁴

Right to Buy: Over 2m homes in England have been sold under the RTB. Alongside the reduction in new build this has considerably reduced the social housing stock. It has also undermined efforts to address affordability, reducing numbers of relets at lower rents and moving over a third of the sold properties from social renting to the PRS. The Commission recommends councils have full discretion over the level of discount they offer, complete control over receipts and the opportunity to restrict any letting by a purchaser (e.g. requiring consent for letting the property). This way the scheme can help fund the one to one replacements of social rented homes which has been the government's intention.

The case for more social and affordable homes

A step change in the supply of social and affordable homes centres not only on meeting housing need,³⁵ improving affordability and security, and promoting mixed income communities, but also on the extra spill-over benefits – to the economy in terms of local growth and productivity;³⁶ in tackling poverty and improving people's well-being and life chances; and helping reduce carbon emissions.

Recent estimates suggest that each £1 invested in a new social home generates £2.84 in the wider economy and saves £780 per year in Housing Benefit.³⁷ There are other gains to the Treasury and to councils from higher tax receipts.

Analysis by the Commission estimated that over a 30-year period investment in each new social rented home delivers £45,000 of net benefits.³⁸ According a study by Hyde Group, the social value of each social tenancy is estimated to contribute around £17,000 to the economy.³⁹

Evidence to the Commission also highlights the relatively faster build out rates of developments where there are social and affordable homes being constructed together,⁴⁰ as well as the boost that social housing can give to offsite manufacturing.⁴¹

Although it will need significant extra investment to take advantage of weak market conditions, the social housing sector is in a relatively healthy financial position to deliver extra homes.⁴² Social landlords are experiencing higher arrears and voids, but many are keen – and able – to switch to building more social rented homes.

Councils building again: Since 1992 councils in England have built only 25,000 homes, while waiting lists rose to over a 1m households. Prior to the pandemic councils were starting to build again – largely as a result of relaxed borrowing requirements, increases in funding and the setting up of council-owned local housing companies.⁴³ As part of a housing-led recovery plan, local authorities are ready and able to pick up where they were and get building again at scale. They can often do development cheaper because of lower profit margins, access to land at discounted prices and cheaper borrowing.

Scale up the investment

The current Affordable Homes Programme could be scaled up and brought forward. However, a much greater emphasis would need to be given in the existing programme to supporting social rented homes, which require higher grant rates.⁴⁴ As recommended by the LGA, the Government should also bring forward the £10bn Single Housing Infrastructure Fund for public sector related schemes.⁴⁵

Current housing grant - covering typically between 10-12% of housing association development costs⁴⁶ - is insufficient to support a revival in social house building. Analysis by the National Housing Federation showed that meeting social housing need would necessitate grant rates on average at around 44% of total scheme costs.⁴⁷

The Commission recommends that in order to deliver the necessary increase in the supply of social and affordable homes (bearing in mind the need for increased investment in fire safety and decarbonisation), the level of capital investment in social rented housing needs to return to levels above those in 2010 - from 1.9% to 3% of total government expenditure.⁴⁸

Increased private borrowing - taking advantage of historically low interest rates – and giving councils 100% of RTB receipts for recycling into replacement accommodation could also help boost overall investment in social and affordable housing.

Investor confidence in housing association remains strong and given the prevailing uncertainty in the markets and low corporate bond yields, institutional investors, such as pension funds, may now be more attracted to long term funding of social and affordable housing.

Give councils control over Permitted Development Rights: Imminent changes to Use Classes Order (enabling change of use without planning permission) and previous reforms to Permitted Development Rights (which convert commercial properties to residential use without planning consent) are intended to create new homes. While acknowledging the contribution towards overall new supply, the Commission is concerned that these reform all too often lead to inappropriate development and undermined local plans that support new affordable housing.⁴⁹ PDRs are also exempt from Section 106 planning obligations for social and affordable housing.⁵⁰ The Commission recommends that the government return these planning powers to local authorities who can ensure proper standards and a reasonable quota of social and affordable homes while still supporting the conversion of retail and office premises for residential use.

Role of the private rented sector

The Commission notes there are serious and growing problems of affordability for tenants in the PRS, which is now the second-largest tenure after owner occupiers and accounts for a quarter of all households with children, compared with 8% in 2004.⁵¹ A third of private renters are living in poverty and the majority of those are spending over 40% of their income on housing costs.⁵²

Younger households seeking to access home ownership continue to face competition from private landlords who – with large cash deposits – have been able to obtain buy-to-let (BTL) mortgages.⁵³ Reductions in tax relief and related tax changes have led to some private landlords leaving the sector, but overall volumes of BTL lending could increase as many would-be buyers have no alternative but to rent for longer. Indeed, the government is being encouraged to consider rolling back recent reforms.⁵⁴

The Commission believes reversing BTL tax changes would be a mistake. It recommends that the government reviews BTL lending with a view to giving the Bank of England's Financial Policy Committee additional powers to limit the use of interest-only buy to let mortgages. This would create more of a level playing field between owner occupiers and BTL landlords.

The Commission sees an important role for the PRS, particularly for young, mobile, households on incomes that can cover market rents. The Commission is also keen to see more new homes delivered by the new breed of 'Build to Rent' developers who bring professional management and extra finance into the rented sector. But it is unfair to expect small private landlords to take the place of social landlords⁵⁵ and provide secure, affordable homes for those on lower incomes.

More decent homes

Improving the quality, suitability, eco-efficiency and safety of homes not only provides health and well-being benefits but reduces carbon emissions and combats fuel poverty.⁵⁶ It also provides local employment and new business opportunities.⁵⁷

Major improvements have been made to the housing stock over the past twenty years, notably in the social sector. However, much of the stock – especially private housing – remains unfit for the future and efforts to meet the net zero carbon target are falling far behind.⁵⁸

As such the Commission welcomes the government's new Green Homes Grant, which includes vouchers for energy-saving home improvements. However, it is important that scheme also benefits social tenants and fully covers the PRS, which has a poor record on energy efficiency.⁵⁹

Buying properties for social rent

The increase in rent arrears in the PRS⁶⁰ coupled with less favourable tax treatment and higher housing standards could lead to some private landlords exiting the market. In some areas this may lead to rented properties being acquired by less scrupulous private landlords. Or it could open-up possibilities for social landlords or social enterprises to acquire rented stock, reversing the shift from social to private renting. Alternatively, there may be more opportunities for the social housing sector to lease properties from landlords who no longer want the costs and risks of letting themselves.

Both acquiring PRS houses and flats and leasing them from private landlords has particular relevance for local authorities currently paying large sums for private sector temporary accommodation to meet their homelessness obligations. The Commission's earlier report, for example, noted the work of a consortium of London Boroughs (under the letting company Capital Letters) in securing leases of PRS properties for this purpose. In the coming months the opportunities for such action are likely to be greater and may be much more urgent if there is a sudden spike in homelessness as unemployment increases.

Social landlords buying properties: Acquisitions of existing properties by social landlords drove the growth of housing association activity in the 1960/70s. In the 1990s, acquisition of social rented homes - with more than £1bn (in today's prices) in housing grant - averaged around 10,000 a year. Housing associations also bought properties through the Mortgage Rescue Scheme after the financial crisis of 2008. However, acquisitions have since dropped to below 1,500 a year, although more councils have been buying properties to provide temporary accommodation prior to Covid-19.⁶¹ The GLA's housing task force has recently proposed a £4.9bn fund for a tenure conversion scheme and a programme to buy unsold private homes at a cost price, and turn them into social housing if a buyer cannot be found on the open market.

In some areas there may be scope to buy-back ex-RTB homes,⁶² as well as acquiring developers' unsold homes and long-term empty properties. Acquisitions could be routed through arms-length Local Housing Companies which have extra borrowing capacity and are not covered by the RTB.

This is also an opportunity for mid-market (intermediate) rent type developments where local government partners with developers for 5-10 years and the state provides guarantees for void loss when they sell on once the market is recovered - a model that worked well in Scotland in the period after the global financial crisis.⁶³

The government recently brought forward funding under its rough sleeper initiative to help social landlords buy and refurbish mainly one-bed properties for homeless people - including units in hotels, as well as unsold shared ownership and market sale properties.⁶⁴ Using this model, a new 'Housing Conversion Fund' - with conversion grants and guarantees - could be quickly established and opened to a range of housing organisations, including community-based organisations. This new fund could include incentives to "flip" market housing, shared ownership and Affordable Rent homes to lettings at social rent.

Support planning gain for social housing

Planning gain is an important funder of affordable (and especially social rented) housing.⁶⁵ A contraction in the housing market is therefore likely to lead to fewer sub-market homes and discourage mixed-tenure developments. A weakening of planning powers will also diminish the capacity of planning authorities to negotiate Section 106 agreements with developers.

The government is minded to amend the planning gain regulations to allow developers defer and possibly review their contributions.⁶⁶ The Commission appreciates the need in the current circumstances for flexibility but is concerned that reforms could lead to an even bigger reduction of developer contributions and subsequent loss of social and affordable homes.

The government is also preparing to pilot its new First Homes scheme where properties are sold and re-sold to FTBs in perpetuity, at a minimum 30% discount and 5% deposit. It would be part of the extended 2021 Affordable Homes Programme with the homes part funded via Section 106 contributions. The Commission is concerned that the scheme would significantly displace the supply of social and affordable housing.⁶⁷ One way of combating this would be to give local authorities the discretion as to what their local policies should be, taking account of local housing needs – ensuring that First Homes are additional to, not replacements for, social and affordable homes for rent.

Reform the land market

Soaring land values have pushed up the cost of all new housing, including social and affordable homes. The gap in some areas between the agricultural value and the residential value, for example, is stark – with agricultural land increasing in value with planning permission often by more than 300 times. Such a huge uplift in value compromises the viability of including social and affordable housing.

The Commission was told that large windfall profits to landowners and developers was baked into the system.⁶⁸ As such, the Commission recommends that the government should press ahead with the Letwin Review recommendations to cap residual land values at no more than 10 times current use value on larger sites and to reform compulsory purchase orders.⁶⁹ Capturing more of the “hope value” from development reduces the subsidy needed for social and affordable housing, especially in higher value areas.

There is also a need at this time to fast track surplus public land (and infill sites) for social and affordable homes.⁷⁰ Rather than seek the maximum land price, public land could be discounted for developments that provide higher levels of social and affordable housing. Recent studies suggest as little as 6% of homes built on public land were for social rent.⁷¹

Rent protection in the PRS

Government actions to protect renters during the pandemic have been widely supported. But the blanket safeguards – notably evictions protection – may need to be reviewed. Introducing temporary non statutory pre-action protocols to encourage “fair and transparent discussions” between landlords and tenants over rental payments are likely to be hit and miss and ineffective with rogue landlords.

Some landlords will allow ‘rent holidays’ and show forbearance, but others that rely on rents for all or part of their income may have no option but to evict if tenants can’t clear their arrears and the benefit system falls short.⁷² According to a recent survey by the National Residential Landlords Association 29% of landlords expect to face some level of financial hardship as a result of the pandemic.⁷³

The government’s commitment to banning Section 21 evictions will help new tenants⁷⁴ but this alone will not protect those who have been unable to pay their rent. Making Ground 8 of the Housing Act (1988) mandatory grounds for eviction discretionary in court proceedings where the arrears are Covid-19 related may be one way forward.⁷⁵

Irrespective of the immediate situation, a landlord could increase rents dramatically, pricing out the occupier and undermining the enhanced security. To counter this, the Commission recommends the proposed Renters Reform legislation – linked to ending Section 21 - should introduce caps on unjustified rent rises by limiting annual increases to an index of income growth for a fixed period (e.g. of four years). This would be similar to the proposed ‘Fair rents’ cap in Scotland⁷⁶ and the Rent Standard formula for social housing in England.

Effective enforcement and compliance is key to the success of rent stabilisation. As such, the Commission recommends that charging more than the permitted rent increase would be an offence, with the landlord facing a fine and having to return the excess rent to the tenant. Enforcement will be needed where the law is broken with proposed rent regulation by the First-tier Tribunal (or new housing courts if these are established).

Strengthen safety nets

The Commission’s research highlighted the deficiencies in the housing welfare system, drawing attention to the problems surrounding the eligibility rules, benefit caps and roll-out of universal credit. It showed how the persistent shortfall in benefit payments to meet the rising living costs of claimants has pushed more and more households into poverty, especially in the PRS. Recent studies have also shown how Universal Credit is weakening the welfare system’s ability to provide a safety net against eviction.⁷⁷

Although the social security system coped effectively with the sudden Covid-19 spike in the number of benefit claims⁷⁸ – and positive action has been taken to tackle rough sleeping – there are concerns that homelessness (and demand for temporary accommodation) will quickly reappear once the emergency measures are withdrawn. The prospect of a sudden and sustained rise in unemployment is particularly worrying, especially for lower income households with no savings and insecure tenancies. There are also worries that private landlords may exclude benefit claimants.⁷⁹

During the pandemic the government increased the local housing allowance (LHA) to the 30th percentile of local rented properties, after a long freeze – which principally benefited tenants, rather than landlords.⁸⁰ It also generated savings to government, which more than offset the cost of the uprating.⁸¹

The Commission believes it would be entirely retrograde step to reverse this policy change and a disaster for many struggling renters.⁸² The Commission strongly advocate the revised allowance levels remain and are kept in line with local rents.

Half of those who have applied for Universal Credit since the beginning of the outbreak are reported to be in financial difficulty or problem debt.⁸³ Without extra support the situation is expected to worsen, especially for those with children or health issues.

The Commission joins others in recommending an acceleration of reforms to Universal Credit to reduce the delay in the initial payment from five weeks to under two; for payments to be made on a weekly basis; and for the housing benefit element to be paid directly to landlords by default, with an option for tenants to receive the payment themselves if they so wish.⁸⁴

Help struggling homeowners

Nearly 2m homeowners have taken mortgage payment holidays, with arrears rising dramatically.⁸⁵ Although the deadline for applications and ban on lender repossessions of properties has now been extended, there are still concerns that some homeowners – especially those who bought recently and face a loss of income – could be in financial difficulty.⁸⁶ An increase in unemployment to 8%, for example, is estimated to result in a doubling of households with a high debt servicing rate.⁸⁷

To prevent hardship and a fall in home ownership during an extended period of unemployment, the Commission recommends restoring support for mortgage interest as a benefit not a loan, reducing the waiting period, introducing regional caps, and linking payments to actual costs.

Extend Help to Buy

Tighter lending and the general uncertainty in the housing market suggest that potential younger buyers will be renting for longer. Schemes like the Help to Buy: Equity Loan will therefore become more important in supporting FTBs, alongside other initiatives such as a Stamp Duty holiday.

Although the Commission notes that Help to Buy has had mixed results – largely benefiting households with above average incomes – there is merit in reforming the scheme to support the recovery. With better targeting to those at the margins of home ownership, the current scheme could be extended to FTBs buying existing (used) property.

Refocusing the scheme to allow for relatively lower income potential FTBs to buy in the existing housing market would also improve intergenerational fairness and reduce wealth inequalities, since beneficiaries would be those less likely to benefit from the “bank of mum and dad”.

About this report

The Affordable Housing Commission was formed in October 2018 as an independent group of housing leaders, chaired by Lord Best. It was founded by the Smith Institute with the support of the Nationwide Foundation. The Commission's main report 'Making Housing Affordable Again: Rebalancing the Nation's Housing System', was published in March 2020. www.affordablehousingcommission.org

The Smith Institute is a not for profit think tank which provides a high-level forum for thought leadership and debate on public policy and politics. It seeks to engage politicians, senior decision makers, practitioners, academia, opinion formers and commentators on promoting policies for a fairer society. www.smith-institute.org.uk

The Nationwide Foundation is a charity which influences changes to improve circumstances for those people in the UK who most need help. Its vision is for everyone in the UK to have access to a decent home that they can afford, and its strategy seeks to improve the lives of people who are disadvantaged because of their housing circumstances. To do this, it aims to increase the availability of decent affordable homes. The Nationwide Foundation was established by Nationwide Building Society in 1997 as a fully independent foundation. www.nationwidefoundation.org.uk

End Notes

- 1 See Affordable Housing Commission (AHC) <https://www.affordablehousingcommission.org/>
- 2 A survey by Shelter/YouGov in September 2019 warned that a economic downturn would be particularly bleak for working families with children. Some 760,000 renting families were recorded as being one paycheque away from losing their home. The Commission's own polling in 2018 showed a similarly precarious position that many renters are in.
- 3 See IFS, 'Coronavirus and the economy' (2020)
- 4 Bramley, G Housing Supply Requirements Across Great Britain for Low-income Households and Homeless People: Main Technical Report (Herriot-Watt, 2019) and BBC Housing Briefing (2020)
- 5 Barton Willmore predict completions falling to 150,000 a year (from a 2018/19 high of 240,000) until 2024/25. Knight Frank predict a fall of 35% in private housing delivery in 2020
- 6 Shelter, Rescue, recovery and reform: Housebuilding and the pandemic (2020)
- 7 London's large associations now fund up to 85% of the cost of new homes from their own resources (G15/GLA, 'The 2022-2032 Affordable Housing Funding Requirement for London' (2019)
- 8 Resolution Foundation, 'Coping with housing costs during the Coronavirus' (2020)
- 9 MHCLG and VOA data and AHC research shows private rents are nearly double social rent and nearly three times mortgages homeownership
- 10 AHC shows the social housing sector has halved from its peak and shrunk from being three times the size of the PRS to appreciably smaller than it; and Cribb, J et al, The Decline of Homeownership Among Young Adults (2018)
- 11 Savills expect private rents to remain relatively resilient in the coming months and years, rising 61.3% over the next five years in London and 13.6% across the UK, 'Spotlight: revisions to our mainstream market forecasts' (2020)
- 12 Resolution Foundation reports that at the age of 30 those without parental property wealth are approximately 60% less likely to be homeowners than people whose parents are homeowners
- 13 The average deposit in the South East in 1QTR 2019 was £72,144 and £40,291 in the West Midlands (Savills)
- 14 See IPPR, 'paper, Renting Beyond their Means: The Role of Living Rent in addressing housing affordability' (2020)
- 15 Resolution Foundation, 'Risky business: Economic impacts of the coronavirus crisis on different groups of workers' (2020)
- 16 IPPR/Savanta ComRes poll (June 2020)

- 17 Ipsos MORI polling reported four in ten stating economic issues as a big concern for the country ('Issues index' June 2020)
- 18 See RICS' UK Residential Market Surveys: market reports by Savills, Knight Frank and the Centre for Economics and Business Research which forecast falls of between 7.5-15% in 2020
- 19 Open Property Group, 'House price affordability index 2019/20' (2020) claims house prices would need to fall 37% on average (and 70% in Oxford and central London)
- 20 Private rents reached record highs prior to the pandemic lockdown - ONS 'Private rental market summary statistics: April 2019-March 2020 (2020)
- 21 Unemployment forecasts for 2020 vary from 9-14% - see Greg P, 'Unemployment: The coming storm' (2020)
- 22 AHC research showed that while a household earning around the national living wage in social housing is paying around 25% of their income on rent, the figure is in excess of 40% for an Affordable Rent home.
- 23 MHCLG data shows that new social rented housing as a proportion of new affordable housing stock has declined from 87% in 1991/92 to just 11% today
- 24 Affordable Housing Programme 21-22/2026/27 amounts to £2.4bn a year, compared with £3.9bn in 2010/11 (in 2019 prices). Previous programmes allocated a much large proportion to support new social rented housing
- 25 FTI research for Shelter, 'Investment in housing and its contribution to economic growth' (2011) suggest that an additional £1 of demand for construction activity generates £2.09 of economic output through the direct and indirect multiplier effects associated with construction firms purchasing goods and services from other sectors, and construction sector wages and profits being spent across the whole economy - this compares with a ratio of 1.7 for advanced manufacturing. Also, see Homes England/HCA, 'The Role of Housing in the Economy' (2010)
- 26 Centre for Social Justice, 'Housing That Works: Can Employers Help Solve the Housing Crisis?' (2019) and MacLennan, D, 'Making Better Economic Cases for Housing Policies' (UNSW Sydney, 2018)
- 27 CIH, 'UK housing review 2020' (2020)
- 28 MHCLG, 'Dwelling Stock Estimates: 31 March 2019, England' (2020)
- 29 Bramley, G Housing Supply Requirements Across Great Britain: For Low-income Households and Homeless People (National Housing Federation & Crisis, 2019)
- 30 New social rented homes provided with grant was around 6,500 in 2019
- 31 New supply of affordable housing was around 57k last year in England (MHCLG Live table 1000). Affordable housing need estimates (re Prof. Glen Bramley's 'Housing supply requirements' 2018) are 145k (including 30k intermediate rent and 25k Low cost home ownership).
- 32 Average build costs increased 42% or by £85,000 to £285,000 per home in ten years since 2010 - Network Homes, 'Why aren't housing associations building more social rented homes?' (2019)
- 33 CIH, 'UK housing review 2020' (2020)
- 34 The G15 estimate the cost for London's housing associations at £6.9bn
- 35 Social housing provides a quicker route to meeting housing need - reducing the numbers in housing need by three times as much as private housing
- 36 City Futures Research Centre UNSW Built Environment, UNSW Sydney 'Strengthening economic cases for housing policies' (2019)
- 37 LGA/Capital Economics, 'Building new social rented homes' (2020) and 'Setting social rents' (2018)
- 38 Grant funding of £82,000 per unit delivers £45,000 of net benefit
- 39 Hyde group, 'The value of social tenancy: a socio-economic evaluation based on Hyde's housing portfolio' (2018)
- 40 See Nathaniel Litchfield & Partners, 'Start to Finish: How Quickly do Large-Scale Housing Sites Deliver?' (2016)
- 41 Parliament's Housing, Communities & Local Government Committee commented that modern methods of construction were particularly well suited to social housing because the large volumes of standardised accommodation helped to bring down unit costs
- 42 See JLL/Savills, 'EUV-SH and MV-T Valuations -Impact of Covid-19 Crisis (2020)
- 43 RTPI/UCL, 'Local Authority Direct Delivery on Housing: Continuation Research' (2019)
- 44 Of the 90,000 homes grant funded via the Affordable Homes Programme since 2016, only 4% recorded as for social rent - compared with 52% for Affordable Rent and 44% affordable homeownership (Inside Housing 14.2.20)
- 45 Localis, 'Building for renewal: kickstarting the Covid-19 recovery' (2020)
- 46 CIH, 'UK Housing review' (2020)

- 47 National Housing Federation, 'Capital grant required to meet social housing need in England 2021 -2031' (2019). According to Network Homes, 'Why aren't housing associations building more social rented homes' (2019) grant levels have fallen from over 51% of the cost of each home in government grant in 2008-11 to less than 12%
- 48 Based on CIH 2019 Housing Review: Table 56 'Territorial Analysis of Identifiable Government Expenditure in the UK' and Table 62a 'Housing Capital Investment in England'
- 49 Such PDRs were temporarily introduced in 2013 and made permanent in 2015. The TCPA estimates that this has resulted in 100,000 additional homes - the vast majority are office-to-residential conversions
- 50 Research by The LGA suggests that of 54,000 homes converted from offices to residential properties since 2015 contributed to the potential loss of 13,540 affordable homes over four years
- 51 MHCLG/ONS data shows 25% of all households with children now live in the PRS (up from 8% in 2004); the numbers of households in the PRS headed by someone aged over 64 will more than treble over the next 25-30 years to 1.5m, many on low incomes
- 52 ONS, UK private rented sector: 2018: Around 2m households in the PRS are in unaffordable housing - representing 43% of all households renting privately and Affordable Housing Commission analysis
- 53 The total value of BTL lending rose from £9.1bn in 2000 to £240bn in 2017
- 54 See for example Spectator, 'Is now the time to invest in buy to let' (July 2020)
- 55 Most of the sector is made up of 'amateur' investment landlords - around 1.5m own one to five properties - see MHCLG English private rented sector survey', 2018, and MHCLG, English Housing Survey: Headline Report, 2018-19 (2020)
- 56 The Building Research Establishment (BRE), for instance, estimates the cost of poor-quality housing to the NHS at £760m a year
- 57 BBC reports that 40,000 jobs could be created by the government in insulation over the next two years, and 150,000 by 2030, 'Coronavirus: Home insulation 'could create cheap jobs'(June 2020)
- 58 Committee on Climate Change, 'UK Housing: Fit for the Future?' (2019)
- 59 Overall, 25% of homes in the private rented sector fail to meet statutory minimum standards - RTPI, 'Plan the world we need' (2020)
- 60 According to polling by Shelter an estimated 226,785 could be at risk of losing their homes when the ban on evictions ends (July 2020)
- 61 Smith Institute, 'Delivering the Renaissance in Council-built Homes: The Rise of Local Housing Companies' (2017)
- 62 York University, 'The Evolving Private Rented Sector: Its Contribution and Potential' (2018) referred to more than 500,000 social housing properties sold under Right to Buy being let in the private sector
- 63 Established by Scottish Futures Trust as an emergency model to help developers with unfinished and unsold sites
- 64 MHCLG announced £130m capital for the acquisition/refurbishment by social landlords of some 3,300 units in 2020/21
- 65 Section 106 and (to a lesser extent) Community Infrastructure Levy obligations account for around half of all affordable homes completed (without grant) - worth £6bn a year to fund around 23,000 homes
- 66 MHCLG, 'Coronavirus (COVID-19): Community Infrastructure Levy guidance' (2020)
- 67 According to the G15, in London if 80% of Section 106 housing was earmarked as First Homes, it would deliver 3,629 fewer affordable homes a year
- 68 See the Centre for Progressive Policy, 'Gathering the Windfall: How Changing Land Law can Unlock England's Housing Supply Potential' (2018)
- 69 Rt Hon Sir Oliver Letwin MP, 'Independent review of build out: Final report' (2018)
- 70 MHCLG, 'Public Land for Housing Programme 2015-20: Progress Report' (2019) identifies enough public land for 160,000 homes
- 71 New Economics Foundation, 'Mass Sell-off of Public Land Fails to Deliver Social Housing' (2019)
- 72 According to the National Residential Landlords Association 94% per cent of private landlords let their property out as individuals and 39% have a reported gross income of less than £20,000
- 73 NRLA, 'Impact of coronavirus on private sector tenants and landlords' (2020)
- 74 The government has promised to bring forward legislation to abolish "no fault" Section 21 notices in England so that landlords will no longer be able to evict tenants without a legitimate reason
- 75 Ground 8 (schedule 2 of the Housing Act 1988) provides mandatory grounds for eviction where tenants are in arrears of over two months
- 76 The Fair Rents (Scotland) Bill (2020) was lodged in 2019 but has yet to become law. It prevents a landlord from increasing rent by more than a set level (related to inflation) and allows a tenant to apply to the rent officer to have a 'fair open market rent' set for the property

- 77 See Iain Hardie, 'How universal credit is weakening the welfare system's housing safety net' (2020)
- 78 DWP, Stat-Xplore, As of May 2020 over 5.2m people were in receipt of universal credit (DWP)
- 79 A survey of RLA members in 2018, for example, reported that 62% of respondents stated they would not let to UC claimants
- 80 Research for DWP into earlier LHA reforms suggest that around 90% of LHA cuts are paid by tenants, with the remaining 10% absorbed by landlords. See Brewer, M Econometric Analysis of the Impacts of Local Housing Allowance Reforms on Existing Claimants (DWP, 2014)
- 81 According to Alma Economics, 'LHA: options for reform' (2019), the net impact of an increase to the 30th percentile would be a gain of £1.3bn by 2024/25, taking account of social welfare and the financial benefits of more disposable income and savings from reduced rates of homelessness
- 82 Resolution Foundation, 'Coping with housing costs during the coronavirus crisis' (2020): includes a survey showing one-third of new benefit claimants are in housing cost arrears. Remit Consulting's survey (2020) showed rent collections and payment of service charges fell sharply during the pandemic
- 83 Stepchange the Debt Charity, 'Coronavirus and personal debt: a financial recovery strategy for households' (2020) and Citizens Advice 'Near the cliff-edge: how to protect households facing debt during Covid-19' (2020)
- 84 A measure supported by the NRLA
- 85 UK Finance, Lenders commit to ongoing support for mortgage borrowers impacted by Covid-19, 2 June 2020. This data includes buy-to-let mortgages.
- 86 Analysis by Moody's suggested that a 20% fall in house prices would push 9% of borrowers into negative equity, with a stark divide between Northern regions (affecting over 20%) and borrowers in the South (under 1%)
- 87 Bank of England Financial Stability Report (July 2017). The Bank of England is currently forecasting employment to peak around 9%

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