



# Making a house a home: Why policy must focus on the ownership and distribution of housing

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This is the first output of a JRF coordinated programme of work focussed on the ownership and distribution of homes in the English housing market.

It sets out the argument which underpins this programme, introduces some tentative proposals for reform, and highlights some areas we want to explore and test further in subsequent work.

We want this to spark debate and feedback on the argument and ideas that we are putting forward. If you have thoughts, please contact us at:

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## Executive summary

The housing market is not working.

A significant number of households face unaffordable, insecure homes and are locked out of opportunities to sustainably build wealth.

This has been driven by a seismic shift in the distribution of homes in recent decades, marked by the rapid growth of the private rented sector – which grew by 2.7 million homes between 2000 and 2020 the equivalent to three quarters of total net additions in this period. At the same time, we have seen a decline in the proportion of households in social housing and owner occupation.

This situation flows from long running trends, some by policy design and others by political inaction, yet policy does not currently frame the housing issue in a way which recognises these trends.

Instead, the housing debate has too often been narrowly focussed on the need to for a sustained increase in house building, designed to correct for a historic undersupply of new homes, above all else.

We do need new supply. A core driver of the issues in the housing system is the rising cost of housing relative to earnings and new supply can have an impact in reducing prices, particularly in areas of high demand. And it is essential that we focus on the nature of this supply, delivering a far larger amount of social and affordable housing.

However, a focus on supply alone is partial – not least as any reduction in prices from maintaining high rates of supply will take a generation to achieve, while also being unlikely to offset the total scale of the increases in prices we have seen in the last three decades on its own.

Alongside this, we must place a much greater focus on the 25 million homes we already occupy, both to address the cost of housing and to explore the strategies, levers, and policies which can be utilised to rapidly shift who they are owned by and in whose interests.

Recent history shows that rapid shifts in the distribution of homes are possible.

Ten years on from the introduction of the Right to Buy scheme in 1980, which allowed sitting tenants to purchase their council homes with a significant discount, nearly 1 million homes were sold, an 18% reduction in stock.

Replacing this stock at current levels of social and affordable house building would take 19 years, and at current levels of social rent delivery it would take 150 years<sup>i</sup>, before even considering the loss of stock through sales under the Right to Buy. Even if

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rates of building were taken up to 90,000 units a year (the figure often used by housing campaigners as to the need for social rent homes) it would take a decade.

Similarly, twelve years on from the Global Financial Crisis in 2008 the private rented sector had grown by around 1.4 million homes, a 39% increase – spurred on by a demand for homes, due to barriers to accessing homeownership and social housing, and macro-economic, fiscal, and regulatory conditions which incentivised individuals to become landlords given the potential capital gains and rental yields. Were this growth to be reversed overnight, the proportion of homeowners could increase by 9%, offsetting its recent decline, or the proportion living in the social rented sector could increase by a third (33%)<sup>ii</sup>.

Both these cases demonstrate that proactive policy and the regulatory, fiscal, and macro-economic context which govern the housing market can have a significant impact in creating rapid shifts in the distribution of homes. This is unsurprising when we consider that transactions of existing homes far outweigh the contributions of new building. Of the 20 million privately owned properties in England, around 3% were built in the last 5 years. Whereas around a quarter (25%) changed hands over the same period.

This drives home that we should be intervening in the housing market now with the ambition to create a shift on a similar scale, offering a framework which places a much more explicit focus on utilising transactions between parties in the housing market to drive change. All with the aim of delivering:

- a higher rate of homeownership, especially among young people and people on lower incomes, including a greater diversity of shared, community, and cooperative ownership options;
- a much larger pool of sub-market rented options, across social and intermediate price points, including with options to build equity and assets over time, and;
- a smaller, higher-quality and better managed private rented sector, which provides flexibility to people that choose it and with appropriate financial support for people that need it.

This can be achieved through a focus in four key areas.

**Firstly, we need to set policy which works to create a smaller, higher quality, and better managed private rented sector, which meets the needs of people seeking flexibility, while rejecting the notion that private renting can be a home for such a large portion of the population.**

This means changing the ‘rules of the game’ which are advantaging those with larger deposits and therefore biasing lending towards investors over first-time buyers, alongside putting in place policies which make becoming a landlord much less attractive, recognising the negative consequences of this form of investment. This will mean exploring regulatory and fiscal changes which re-orientate lending towards first-



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time buyers and which limit profits from speculating on property, such as reforms to stamp duty, capital gains, and council tax.

This should also focus on creating positive alternative options for sustainable investment, which challenge a culture of property speculation, and incentivise other ways of investing that could lead to a fairer distribution of wealth and stronger economic growth.

This should both interrogate why we have become so dependent on property wealth to provide an income during retirement, examining the need for greater investment in welfare, pensions, and social care services. Alongside proposing mechanisms to divert private investment into more socially productive models, such as bonds or investment products which support the retrofitting of homes or the financing of social and affordable housing

**Secondly, we must develop policies which proactively shape the market and offer ways for households to move from private renting to home ownership or a sub-market housing option.** This should, at least in part, be about trying to support the equitable re-distribution of homes sold off by private landlords. This would mean working to develop, support, and build models which:

- Allow local authorities, housing providers, and community groups to intervene directly in the secondary market to buy homes, re-fitting them to a high decency and environmental standards, and then letting them out at more affordable rents.
- Support access to homeownership for people it is feasible for, focussing on the barriers to access and introducing policy that manages to overcome them, including both supply- and demand-side interventions, such as mortgage market reform. This should explore options for sub-market home ownership, such as shared or discounted ownership, and community led and cooperative models of ownership.
- Creating routes for landlords to socialise their homes by leasing them to intermediaries, such as local authorities or housing providers, retaining ownership but accepting a lower rental yield and offering greater security.

**Thirdly, we should look to support households for whom homeownership is not feasible or desirable to sustainably build wealth.** This should look at ways renters can be supported to build some equity, such as through expanding shared ownership and rent-to-buy models, and reforms to the Right to Buy. Alongside efforts that build wealth in sustainable and non-extractive ways outside of traditional property ownership. This would be through supporting renters to save – such as by overpaying rent to smooth out arrears, or in more fundamental ways, such as through asset or equity transfer. This could be achieved through granting renters an ownership stake in their social landlord, or through models which build community wealth or collective ownership. For example, some of the models discussed for socialising homes could be held in collectively owned structures by their tenants, enabling greater control alongside the ability to build a share of the total asset, to be withdrawn when needed.

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**Finally, we must ensure that the transition to a smaller private rented sector is managed equitably, with a particular regard for renters on lower incomes.** The transition to a smaller private rented sector could have some impacts on lower-income renters so there is a need to consider and mitigate any transitional impacts. This will include improving the purchasing power of lower-income renters, through reforms to the way social security supports households with their housing costs. Reforms which would be considerably less expensive in the context of a smaller private rented sector and higher supply of social and affordable housing.

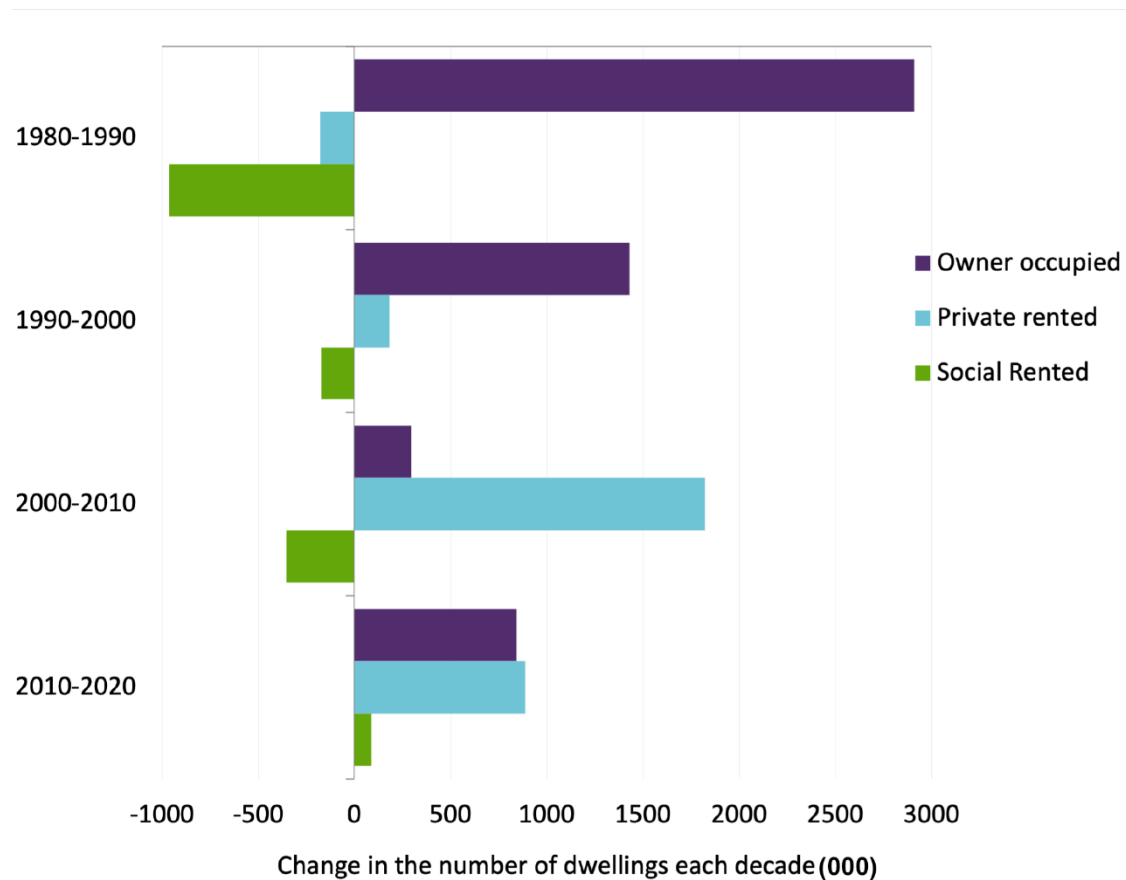
Taken together, this framework could have a substantial impact in shifting the distribution of homes in the UK housing market. But it is by no means all that could or should be done. This output is deliberately framed as a discussion paper and we are keen to solicit views on, and challenge to, this argument. This will be used to support the next steps in this programme, which will dig into these key areas in an attempt to advance them through policy research and practical, real-world interventions.

This will focus on ambitious short- and long-term asks for governments and other key players in the sector. We do not see this as a solo endeavour and are keen to work with others, including tenants, community groups and grassroots organisations, in advancing this work.

## The housing market has undergone a seismic shift in recent decades, which has undermined economic security

In the last two decades we have seen a seismic shift in the distribution of homes in England. This is marked by the rapid growth of the private rented sector, alongside a decline in the proportion of households in social housing and owner occupation.

**Graph one: There has been a rapid shift in the distribution of homes in the last two decades**



Source: JRF analysis of DLUHC Dwelling Stock Estimates

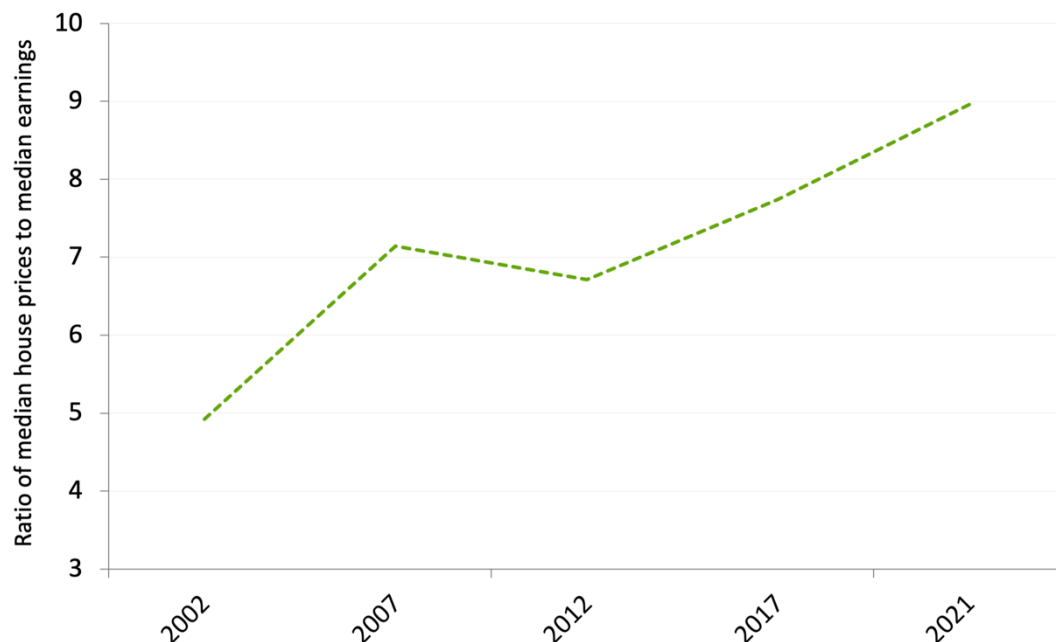
Action, or more often inaction, in three key areas has been a strong driver of the situation we currently face.

### Households are being locked out of homeownership by restrictions on mortgage lending and by house prices which are rising at a higher rate than incomes

House prices have grown significantly faster than earnings in the last three decades. The median house price has grown from 4.9 times the median salary for England in 2002 to 8.96 times in 2021<sup>iii</sup>. At the same time changes to mortgage lending following

the Global Financial Crisis have made access to borrowing more challenging (Edmonds, 2014).

**Graph 2: The ratio of median house prices to median earnings has grown significantly in the last two decades**



Source: Office for National Statistics (2022) House price (existing dwellings) to residence-based earnings ratio.

In the aftermath of the Global Financial Crisis lender behaviour shifted, in part motivated by reforms which introduced affordability and interest rate stress tests which limited lending for the majority of a lender's loan book to 4.5 times a household's income, and limited maximum loan to value ratios (Mulheirn et al, 2022). This shift in behaviour has had a notable impact on the mortgage market, and the willingness of lenders to grant mortgages to people with lower deposits, important for first-time buyers, has reduced.

This is demonstrated in the value of gross mortgage lending at over 90% loan to value (LTV) falling from 14.1% in 2007 to 3.9% in 2017 (Savills, 2017), increasing the deposit requirements for home buyers. Even as house prices fell in the latter part of the 2000s, the required deposit size increased. Jumping from an average of £12,700 in 2007 to £32,300 in 2010 (Mulheirn et al, 2022).

This has had significant consequences for the ability of first-time buyers to access homeownership, with research from the Resolution Foundation finding that that 67% of people aged between 25 and 34 who cannot afford to buy a home cite raising a deposit as the primary barrier (Corlett and Odamtten, 2021). Something which is likely compounded by high rents limiting the capacity of renters to save.

These barriers are not shared equally and have had disproportionate impacts on younger people and people on middle incomes. Research from the Institute for Fiscal studies has found that a 25-year-old born in the 1980s has an average home ownership



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rate of 25%, compared to 43% for those born ten years earlier (Cribb et al, 2018), with an estimated 1.9 million fewer younger families owning their homes in 2019 that would have been the case if previous higher rates of homeownership were sustained. While low-income families have consistently had the lowest rates of homeownership, the middle 20% of the income distribution has seen the most significant fall in rates compared to previous generations (Corlett and Odamtten, 2021).

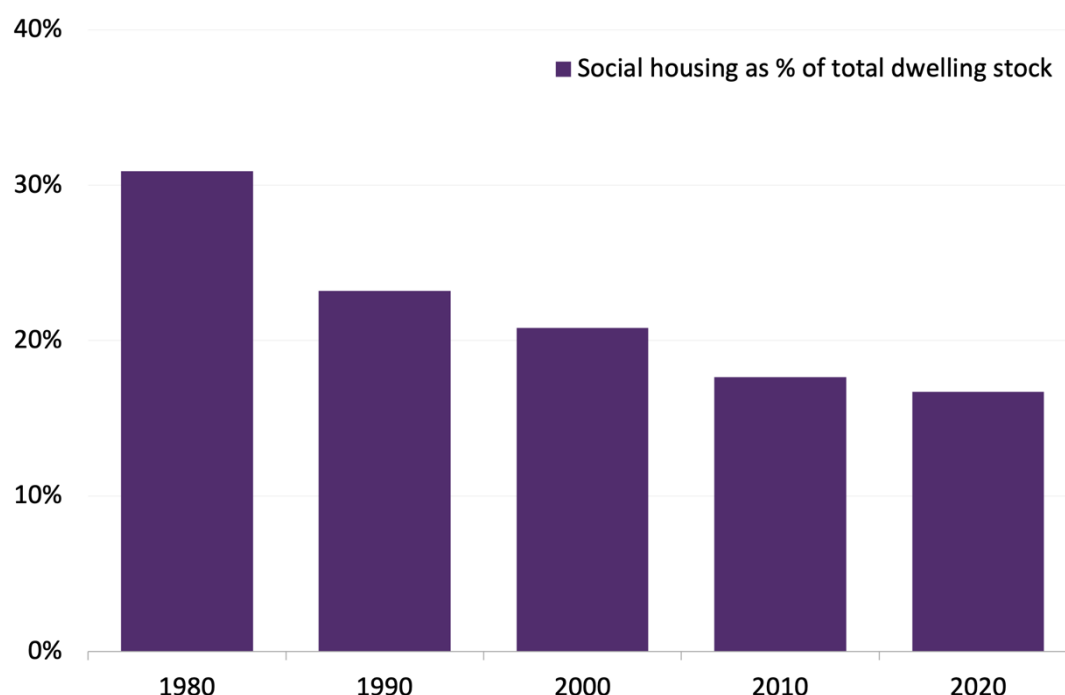
At the same time, rates of homeownership are unequally shared amongst different minoritized ethnic groups. While 68% of White British households own their homes, just 20% of Black African, 40% of Black Caribbean, 46% of Bangladeshi and 58% of Pakistani households are homeowners (Rogaly et al, 2021).

### **The loss of social housing is making access to the tenure more challenging**

The proportion of social housing in England has fallen from 31% in 1980 to 17% in 2020<sup>iv</sup>, thus pushing lower-income households into relying on the private rented sector. In turn this has caused financial stress for low-income renters. Research from JRF finds that more than half (55%) of low-income private renters are paying rents they cannot afford, with some groups particularly hard hit. Single adults, families with children, and people from BAME groups facing particularly high rates of unaffordability. Over half of all renters on low-incomes who face unaffordable rents would be lifted out of housing unaffordability were they to be offered homes at social rent levels (Rogaly et al, 2021).

The decline in social housing has largely been driven by the Right to Buy scheme which allowed sitting tenants to purchase their homes at a discount (Housing Act, 1980). While Right to Buy met its aim of boosting homeownership in its early stages, the policy also led, arguably by design, to a significant loss of social housing. This is owing to successive governments failing to invest in building new social housing at the scale seen in previous decades or at rates which could replace the homes which have been sold, underpinned by a majority of the receipts from sales leaving local authorities and going to the Treasury. In 1979-80, gross government investment in social housing was around £14.5 billion in 2019-20 prices. In the last two decades the average yearly spend has been around £6.8 billion, falling to £5.9 billion in the ten years from 2010-11 to 2019-20<sup>v</sup>, a 52-59% decrease.

**Graph 3: The Right to Buy has led to a decline in social housing as a proportion of total dwelling**



Source: JRF analysis of DLUHC dwelling stock estimates

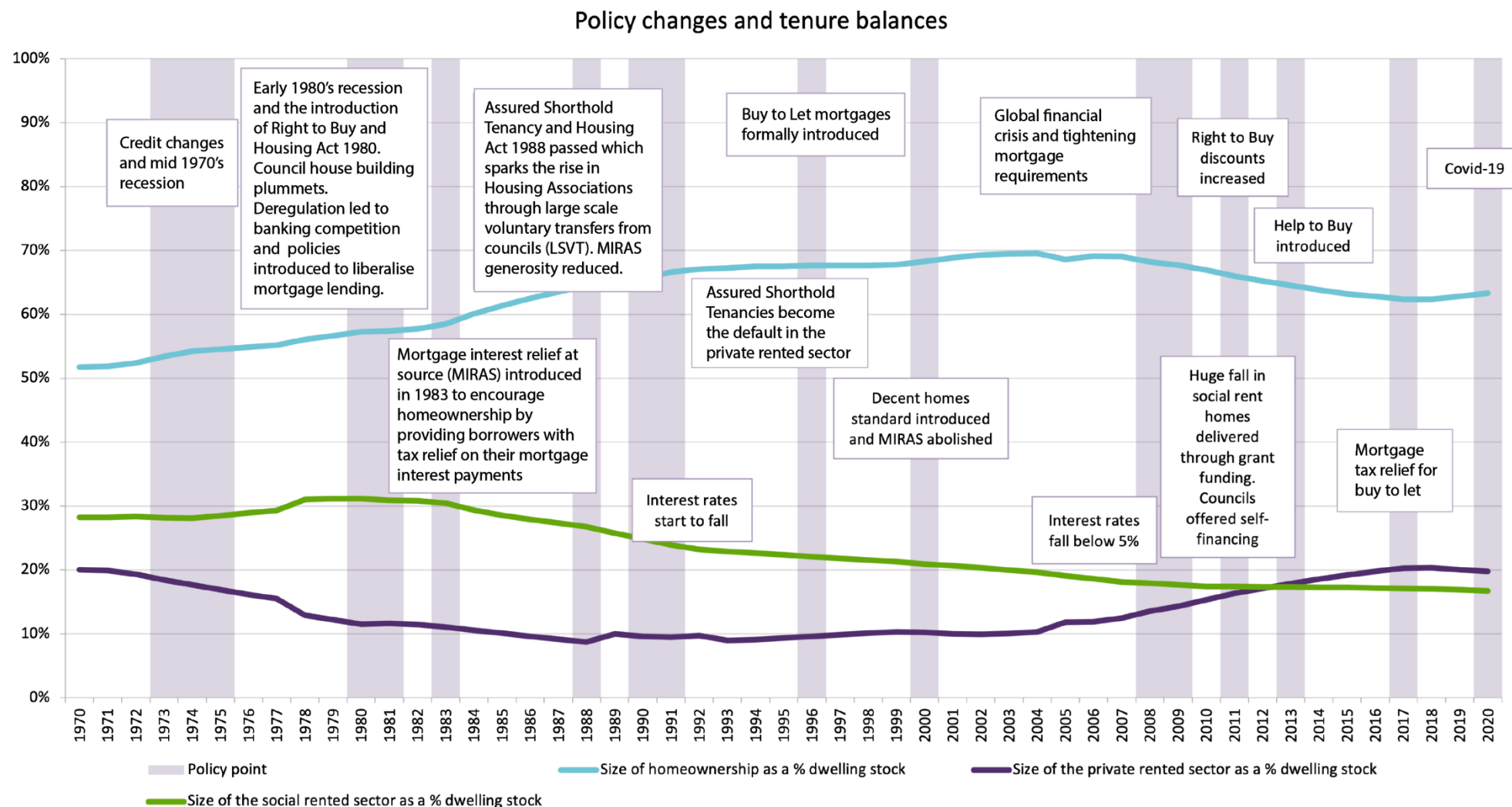
What is more, given the wider barriers to homeownership discussed earlier, the higher rates of homeownership created by the Right to Buy have not been sustained and a significant amount of ex-council homes have found their way into the hands of private landlords. Research from the Chartered Institute of Housing (CIH) estimates that as of 2021 around 40% of homes sold through the Right to Buy are now owned by private landlords (Stephens et al, 2022). Using these figures, we can estimate that ex-Right to Buy homes represent around 16% of the total size of the private rented sector, and 30% of its total growth since 1980<sup>vi</sup>.

### **Macro-economic, fiscal, and regulatory conditions have driven the growth of private renting**

While barriers to homeownership and a reduction in the size of the social housing sector may have created a demand for private rented homes, it is the macro-economic and fiscal conditions and regulations present in recent decades which have spurred investors to meet it.

Alongside a broader demand for private rented homes caused by the loss of social housing and barriers to homeownership described so far, the growth of the private rented sector has driven by trends in three areas. These are de-regulation, market conditions, and the desirability of housing as an asset.

**Graph 4: The size of the private rented sector has been shaped by a series of policy choices and economic events**



Source: JRF analysis

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In the early 1980's the private rented sector was de-regulated, and previous controls on rents and strong protections from eviction were removed (Housing Act, 1980). This was motivated by a desire to encourage private investment into the sector which had shrunk given the growth of social renting and homeownership (French and Leyshon, 2009).

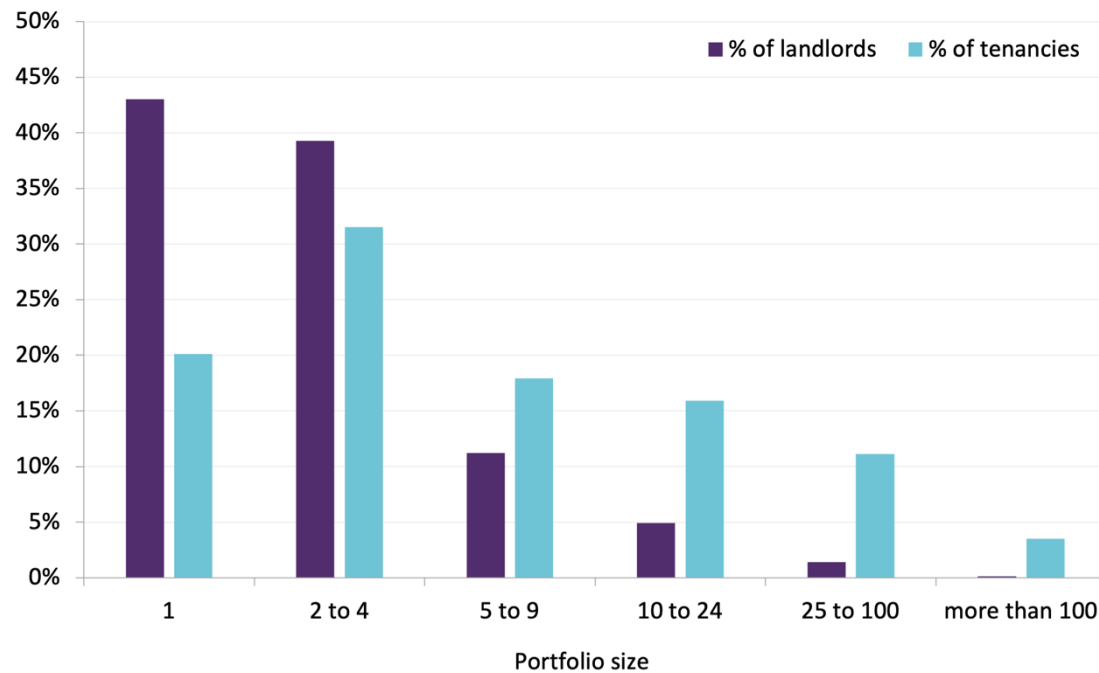
Changes to private tenancies sat alongside a wider de-regulation of the financial sector. The 'Big Bang' financial reforms of the late 1980's freed building societies to borrow on wholesale markets and allowed banks to more freely lend mortgages, significantly increasing both the volume of mortgage lending and the range of products available to lenders. This included the creation of Buy-to-Let mortgages in the 1990s, which allowed individuals easier access to the capital to become landlords (French and Leyshon, 2009).

Following the Global Financial Crisis, a de-regulated sector and the availability of capital from Buy-to-Let mortgages, combined with an increasing number of 'would be' private tenants, were met with the low interest rates emerging from government and the Bank of England's response to the crisis. Low interest rates meant that access to credit was cheap and therefore renting out property was profitable, particularly when compared to the returns households could get from more traditional investments, such as stocks and shares, and set against slow wage growth (Kemp, 2015) .

While at the same time, the flip side of the restrictions facing first-time buyers in the mortgage market, described earlier, has been the desirability of people with existing equity to lenders. This has contributed to biasing the system away from lending to people looking to buy their first home, and towards people with existing equity or who are looking to invest in property. This has been reflected in pricing, with monthly repayments for a 95% loan to value (LTV) loan being 52% higher than for an equivalent 75% LTV loan (Mulheirn et al, 2015).

The desire to invest in property has been further underpinned by the assumption, borne out by what has happened in the proceeding years, that house prices would continue to rise meaning that investors could achieve significant returns on their investments. A factor which has been further facilitated by a tax regime which has not focussed on capturing capital gains, at least in a manner comparable with taxes on earnings.

**Graph 5: The private rented sector is largely made up of landlords who own a small number of homes**



Source: English Private Landlords Survey 2021

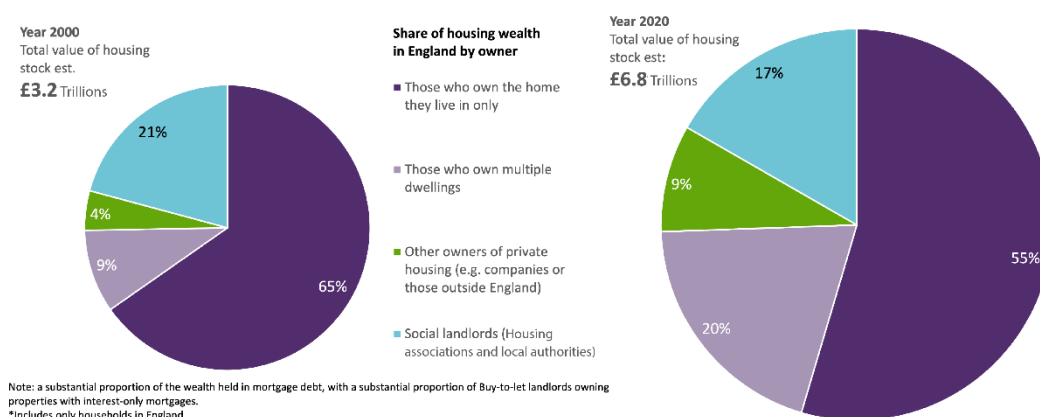
These combining factors have incentivised a significant number of landlords, the majority of whom are individuals with small portfolios of one or two homes and who are in the market as an investment or to provide themselves with a pension, to enter the market.

This expansion has been a core driver of growing wealth inequality. Against the almost halving in the proportion of young adults (16–34-year-olds) owning their own home over the last twenty years, the number of households owning multiple properties has doubled<sup>vii</sup>. While landlords are more likely to be male, older, and white than the population as a whole, entrenching wider inequalities in the distribution of wealth.



## Graph 6: The share of housing wealth held by households in England owning multiple homes has almost doubled between 2000 and 2020, the total real value of the housing stock held by this group quadrupling

The share of housing wealth held by households in England owning multiple dwellings in England almost doubled between 2000 and 2020, with the total real value of the housing stock held by this group quadrupling. The total value of housing stock in England doubled over the twenty year period, in real terms.



The value of housing wealth tied up in additional property ownership, whether to rent privately or as a second home, has doubled from a tenth to a fifth of the value of the entire housing stock (around £288 billion to around £1.36 trillion in real terms, 2021 prices)<sup>viii</sup>. While the renters paying the mortgages of the landlords of many of these homes are locked out of ownership and the opportunities for building wealth in these properties themselves.

## Policy is failing to tackle these trends

Despite these well observed trends in the housing market, and the consequences they are having, the housing debate is failing to grapple with this problem in a way which could meaningfully address these challenges.

For many years, governments main policy goal has been to increase the supply of private housebuilding. This rests on the argument that supply has failed to keep pace with demand, leading to a short fall which has driven up costs.

A focus on supply is important. A core driver of the issues in the housing system is the rising cost of housing relative to earnings. There is strong evidence for the argument that new supply can have an impact in reducing prices, particularly in areas of high demand.

There is also a need for a diversity of supply, and for the supply of social and affordable homes being delivered to increase. In fact, were social and affordable housing completions to have reached the 145,000 a year that independent assessments of need call for (Bramley, 2018), then the Governments 300,000 a year target for housebuilding would have been exceeded in every year since 2015-16<sup>ix</sup>.

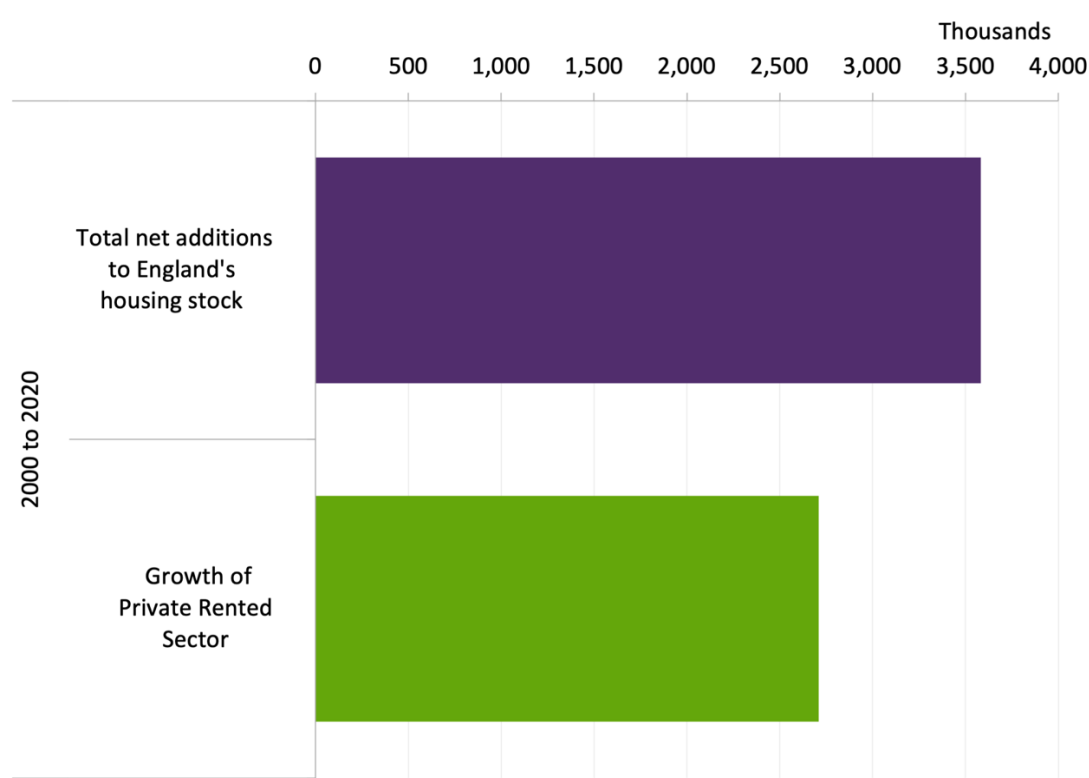
But looking at supply alone can only provide a partial view. In part, this is because it is not clear whether supply alone will be able to turn back these trends. Multiple estimates suggest that were we to build 300k homes a year over a 20 period, prices

would fall in real terms by between 7-13%. This reduction is limited when compared to the actual increases in house prices we have seen in recent years (Mulheirn, 2019).

At the same time, addressing housing costs through supply will be a generational project – with most modelling assuming timescales of 25 to 30 years. This means that without additional action, households struggling now will see little immediate relief from an approach focussed on supply alone.

While, adding more supply into a system alone, particularly when that system is biased towards investors over those looking to purchase their own home, will do little to challenge the distributional issues we have described so far. Particularly as private rented sector grew by the equivalent to around three quarters of the total net additions in the period between 2000 and 2020, meaning that the conditions governing the housing market, in facilitating the growth of the private landlord, have undermined gains from new house building.

**Graph 7: The private rented sector grew by the equivalent to three quarters of all net additions between 2000 and 2020**



Source: JRF analysis of ONS dwelling stock estimates

These points should not be treated as frustrating progress against boosting supply. But rather to say that attempts to address the issues present in the housing market which focus on supply alone, intentionally or otherwise, risk shutting off other strategies which respond to the trends and drivers that we can observe. And which focus arbitrarily on numbers over the type of homes.

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Instead, there is untapped potential to focus on the 25 million homes we already occupy, and the strategies, levers, and policies which can be utilised to rapidly shift who they are owned by and provided for.

Making shifting the distribution of homes a core focus on housing policy would allow a focus in two key areas.

Firstly, delivering a much greater amount of public, community, and cooperative ownership of housing, which provide homes for rent at sub-market levels. Multiple analyses of housing affordability point to the need for a larger supply of social housing, with subsidised rents, as key to meeting the needs of those on lower incomes (Bramley, 2018) and avoiding financial pressure from high rents, overcrowding, and homelessness. While combating security, as will be discussed in greater depth later in this paper, requires long term patient investment in the housing market, which can provide the necessary certainty to tenants.

Secondly, spreading wealth, or the opportunity to build wealth, more broadly through a higher rate of homeownership and access to opportunities to build equity for younger people and those on low and middle incomes, including through an expansion of shared, community, and cooperative ownership options.

A desire for homeownership remains a strong element of the housing debate, and one policy should seek to recognise and respond to. Research with 18- to 40-year-olds found that the most common reasons that people cited as reasons for owning were because it provides security, allows a way to preserve wealth, and because it is cheaper than renting (Santander, 2019). These elements are all, in the main, true, and supporting households to access these benefits ought to be a goal of policy. We should be looking to create a system of home ownership that realises these benefits, moving away from one focussed on ever rising prices and speculative investment.

Doing so sensitively and with an eye to risk also means that forms of ownership and equity building can be developed which expand the benefits to those on low incomes, without transferring unreasonable amounts of risk.

In turn, realising these goals should mean a move to a smaller, higher quality and better managed private rented sector, which provides flexibility to those that choose it and with the appropriate level of financial support for those that need it.

Focussing on the distribution of homes in achieving these is right for two reasons. Firstly, it allows us to centre the issues which have flowed from the shifts in tenure we have seen in recent years, and the solutions to them, as core in the debate. Secondly, a focus on the distribution of housing is more efficacious in rapidly solving them.

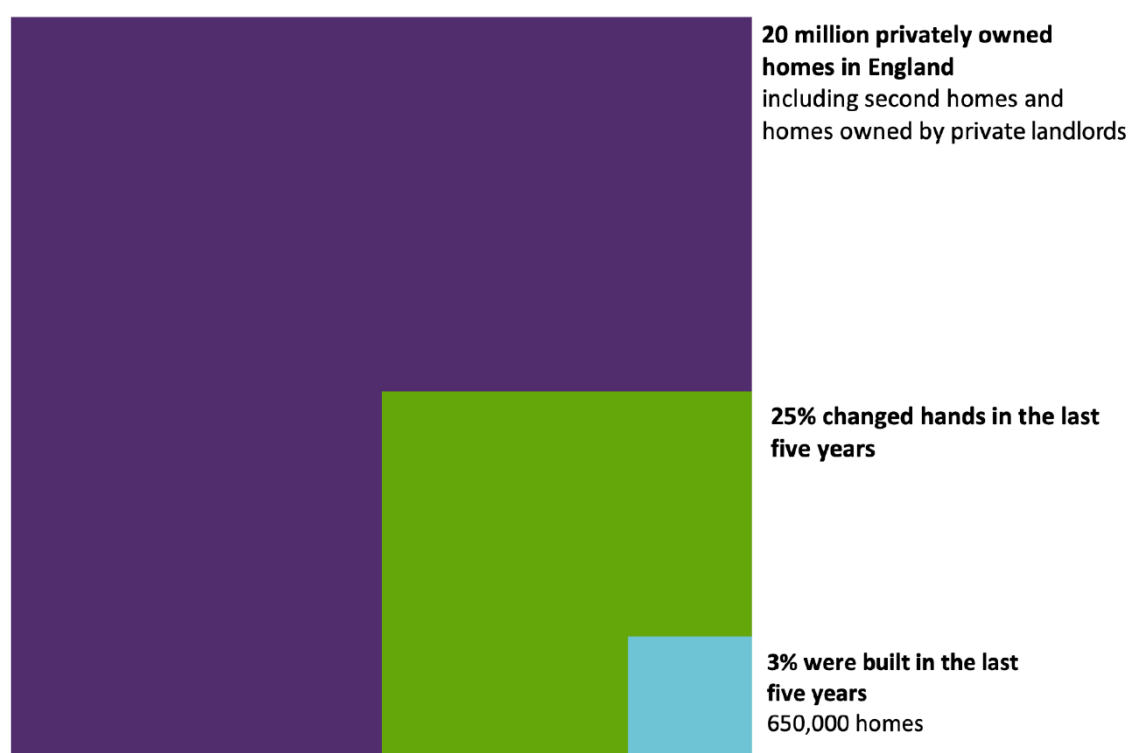
Evidence of this latter point can be found in our recent history. While it has had adverse consequences in the housing system, the Right to Buy is an instructive example.

In the ten years since the introduction of the Right to Buy in 1980, nearly 1 million homes were sold, an 18% reduction in stock.

Replacing this stock at current levels of social and affordable house building would take 19 years, and at current levels of social rent delivery would take around 150 years<sup>x</sup>. Even if rates of building were taken up to 90,000 units a year (the figure often used by housing campaigners as to the need for social rent housing) it would take a decade.

This is unsurprising when we consider that transactions far outweigh the contributions of new building. Of the 20 million privately owned properties in England, around 3% were built in the last five years. Whereas around a quarter (25%) changed hands over the same period (JRF analysis of DLUHC, 2022a; Lewis, 2015; HMRC, 2022; Land Registry, 2022)

**Graph 8: A far greater number of homes change hands through market transactions than through additions from new supply in any one year.**



Source: JRF analysis of Family Resources Survey 2019/20, English Housing Survey 2019/20, Land Registry transactions data, DLUHC Live Tables 104, 123 and 1000. Cross-referenced with JRF analysis of data from other sources including the IMLA, HMRC, the FCA, The English Private Landlords Survey 2021 and Zoopla.

Tracking this forward, the scale of the growth in owner occupation seen over the last fifteen years could be delivered in five years through transactions alone if half of the 25% of private rented sector dwellings transacted were moves into owner occupation. If a fifth of the 25% of private rented sector dwellings transacted were socialised, this would be equivalent to the total decline in the size of the social housing sector between 2000 and 2020.

While this is a theoretical example, were this we make to this a goal over the next decade, set alongside increasing the supply of new social and private homes, it could clearly have a transformative impact, delivering far greater affordability, security, and a fairer distribution of wealth which supports financial security.

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## A framework for shifting the distribution of homes.

While the acknowledgement that the balance of homes has shifted in undesirable ways and that policy ought to correct this is not entirely new, proposals for reform have often been piecemeal. There is a need for a clearer articulation of this as a goal of housing policy and of a more comprehensive framework for how this should be achieved in a rapid and sustainable way.

This should focus on four key areas:

- Setting a strategy for reducing the size of the private rented sector, returning it to a tenure that provides security for those who need it, by rebalancing the relative position of first-time buyers and landlords in the mortgage market and dissuading property speculation.
- Exploiting and supporting any reduction in the size of the private rented sector with market intervening policy which expands the supply of social housing and supports households into homeownership.
- Expanding the routes renters have available to them to build sustainable wealth.
- Ensuring that the transition to a smaller private rented sector is managed equitably, with a particular regard for renters on lower incomes.

There will be no single solution to this challenge and, as the housing market varies across the country, these different approaches will need to be deployed in greater and lesser extents to respond to differing housing market contexts. Not least as the character of buy-to-let investment differs in high and low demand areas (Grayston et al, 2021).

These proposals will also require a greater amount of public spending into the housing market but should return significant social return. And, if greater revenue can be raised through fiscal reforms, then this cost can be to some extent offset.

But a focus on these four areas could have a significant impact in shifting the distribution of homes in ways that realise greater affordability, security, and more equitably spread wealth.

Before expanding on these areas in greater detail, it is important to consider why this focus, particularly plans to reduce the size of the private rented sector, is the correct one.

This paper has shown that the private rented sector has grown significantly numerically and in terms of the proportion of people it houses. This has been driven by structures, regulations, and policies which have created a demand for rented homes, and the conditions for that demand to be exploited by investors. Bringing with it greater unaffordability, insecurity, and driving inequalities in wealth.

The private rented sector is not homogenous. With a range of different types of landlords, from those who own one or a small number of homes and operate part



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time, to large scale individual landlords who own a significant number of homes, and to institutional investors in the Build to Rent sector.

This often leads to the discussion of ‘good’ vs ‘bad’ landlords, with questions raised about how we can encourage the good and dissuade the bad. Often, the case is made that many landlords provide good quality homes to those that require them, and they should be supported to do so. And that were renting to be better regulated, as current plans propose, then a larger private rented sector would be less consequential.

While there is merit in a discussion around the structure of ownership and management of homes in the private rented sector and we welcome the role that long-term institutional investment can play in providing homes for rent (for example good quality, well managed build to rent), this debate obscures the structural consequences of our current reliance on our current private rented market. The growth of the individual private landlord, and particularly that flowing from a greater amount of buy to let lending, has two major problems that better regulation of renting itself is unlikely to solve alone.

Firstly, the business model of the buy to let landlord creates a structural insecurity. The focus on Section 21, the element of current rental regulation which allows a landlord to repossess a tenant’s home with limited notice and with no-grounds, such as rent arrears or damage to the property, has rightfully garnered much attention. Current plans to repeal Section 21 and move to a more secure system, as announced in Government’s recent white paper on tenancy reform (DLUHC, 2022b), are welcome and should offer tenants more stability. However, they don’t address the structural insecurity which emerges from the nature of the private rented sector.

The make-up of the private rented sector as a collection of largely of small-scale landlords, creates a churn as landlords enter and exit the market. As a consequence, the most common reason tenants report for landlords ending their tenancy is their landlord selling up (MHCLG, 2021), and a landlord selling the home has consistently been the biggest reason for tenants leaving a private rented tenancy presented as homeless to local councils (DLUHC, 2022c).

Relatedly, evidence from Scotland where tenancy reforms were introduced in 2017 finds that renters on lower incomes still feel precariously despite benefitting from greater protections from eviction (Rent Better, 2022). Research evaluating the impact of tenure reforms in Scotland finds that tenants are still avoiding complaining about repairs for example, for fear of reprisal, such as through a rent increase. Again, this reflects a limitation of a system structured in this way.

Addressing this cannot be achieved through legislation alone, but rather we must change the nature of homes on offer and improve the amount of sub-market housing on offer. As has been argued so far, focussing on the utilisation of existing stock offers a way to do this at scale and much more rapidly when compared to focussing on new supply alone.

Secondly, the demand for homes as a source of investment is driving increases in prices. There is strong evidence that the demand for homes, and the availability of

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expansive credit through mortgage lending to purchase them, since mortgage lending was liberalised in the 1980s, has had a significant impact on prices in the last four decades (Kazi and MacFarlane, 2022; Ryan-Collins, 2018). For example, research from the Organisation for Economic Cooperation and Development (OECD) found that the expansion of credit flowing from deregulation led to a 30% increase in house prices (Andrews et al, 2011).

While this is not a problem isolated to the buy-to-let market, which represents a minority of lending in aggregate, it is a contributing factor. One which has a vicious circularity as higher prices lead more and more to face higher rents and greater barriers to ownership. A focus on the number of homes owned by landlords can help to reduce some of this demand, by re-orienting lending towards those meeting their own housing need. Therefore, this should be more about re-proportioning, rather than growing, the total volume of lending.

In addition to these principled points, there is an opportunity which has been presented by recent proposals for reform of private renting, which makes a focus on the distribution of homes particularly opportune. A number of policies have recently been introduced which appear to already be having an impact on the size of the private rented sector.

Recent tax changes have reduced landlord profits. Since April 2020 landlords have been unable to offset their mortgage interest payments against their taxes, with this allowance being replaced with a lower 20% tax credit (UK Government, 2022). This was introduced alongside an additional rate of stamp duty on second homes (UK Government, 2022). The implementation of these change was widely criticised by the landlord lobby (NRLA, 2022a), and research from Nationwide Building Society suggests it is having an impact on landlord's desire to stay in the market (Nationwide Building Society, 2022).

Government recent published the 'A fairer private rented sector' white paper which proposed reforms which would strengthen tenants' rights. The changes contained in the white paper offer wide ranging reforms to protection from eviction to rights of redress, and to quality standards, each placing greater restrictions and responsibilities onto landlords (DLUHC, 2022b).

In addition, proposed reforms floated by government would mean that private rented sector homes will need to reach energy Performance Certificate (EPC) C standard by 2030, which require a significant capital investment in these homes (BEIS, 2021). Though, this reform is not yet law.

At the same time, rising interest rates may feed into higher borrowing costs for both prospective and current landlords. This could further undermine the profitability of letting out property.

It is not yet clear whether a less profitable sector and a more stringent regulatory environment and requirements for capital investment means that we may be on the cusp of a greater number of small-scale landlords choosing to exit their investments. Nor whether new entrants may be dissuaded from investing, particularly as house

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prices continue to rise at above inflation levels, but various indicators point to this being the case.

Recent data from the English Private Landlord Survey suggests that three in ten dwellings are owned by landlords who are planning on decreasing the size of their private rented portfolio, with a majority citing regulatory changes as their motivation for potential divestment (DLUHC, 2021d). Though this of course does not tell us about the motivation of those who may plan to enter the market, but do not currently own rental properties.

While qualitative research in Scotland which is further along with similar reforms, and subject to the same tax changes as England, found landlords were motivated to divest from the sector, citing the regulatory changes as a driver. This was paired with some quantitative data which appears to demonstrate a contraction in the size of the sector in Scotland (Rent Better, 2022).

Some have argued that this should give government pause for thought on how boldly they should proceed (NRLA, 2022b), citing concerns that if landlords leave the market this will reduce supply, leading to problems of access and higher costs for renters. However, private landlords do not, except on the margins, increase the supply of new homes and homes removed from the private rental market do not disappear. Instead, these homes can be bought and utilised by new owners. Research from Generation Rent, which examined past events which have led to changes in the size of the private rented sector, has found no evidence that a reduction in the size of the private rented sector will increase rents (Wilson-Craw, 2018). Examining the expansion of demand for private rented homes following increased restrictions to mortgage lending following the Global Financial Crisis, which led to a greater number of households looking for rented homes, and the contraction of the sector after Government introduced tax changes for landlords from 2016, two events which had an impact on the balance of supply and demand in the sector, they find that rather than rising, rents actually fell in real terms (Wilson-Craw, 2018).

While it will be important to keep in review the transitional costs of a shrinking private rented and any necessary mitigations (an area which will be considered later in this paper), this concern should not stymie action. Instead, this offers an opportunity for government to go with the grain of the impacts of planned reforms and look to what else can be done to capitalise on this reduction in the sector.

Accordingly, the approach proposed here could have a substantial impact in shifting the distribution of homes in the UK housing market. The following sections will unpack how it could work in greater detail.

### **Changing the ‘rules of the game’ to create a smaller, higher quality private rented sector**

The contemporary resurgence of the private rented sector is the result of a number of factors which included the liberalisation of the sector, alongside the desirability of housing as an asset, and changes to the mortgage market which have advantaged those with existing equity or capital over those looking to purchase their first home.

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While the reforms currently in place or imminently being implemented are placing downward pressure on the sector, there is more that can be done to steer towards a smaller, higher quality private rented sector. This will mean situating these reforms, particularly plans to significantly improve tenants' rights, in a wider strategy which re-orientes lending towards first time buyers, particularly those on low to middle incomes, reduces the profits from speculating on property, and provides more sustainable opportunities for investment

### Re-orientating lending towards first time buyers

The fall in homeownership against a backdrop of multiple homeownership has, in part, been facilitated by the structure of mortgage market regulations, which have led banks to view buy to let landlords as less risky, and therefore desirable customers, while limited high LTV lending, limited access for first-time buyers.

In a speech this June, the Prime Minister announced a review of the mortgage market (Prime Minister's Office). He pledged that this would look to international examples of providing finance and managing risk. This is welcome. In order to re-balance the market it will be important for this review to consider how to widen access to borrowing for people on low and middle incomes, particularly people who are comfortably paying a greater amount in rent than they would on an equivalent mortgage, to enable them to access homeownership.

One method, considered recently by the Tony Blair Institute for Global Change, would be to establish a state-backed mortgage insurance system and encouraging the development of a private market, thereby supporting higher LTV lending, without the systemic risks created by stripping back current regulation and moving to an even more liberalised system (Mulheirn et al, 2022).

This review should also look at ways of ensuring that increases in lending to first-time buyers are re-focussing lending, rather than growing the total amount of credit flowing into the system. A situation which could further escalate house prices. This should consider the role of limits on buy-to-let lending. Some, such as Positive Money, have suggested that this could be achieved through changes to the Bank of England's mandate giving it a more pro-active role in this area for the Bank of England, such as setting regulations which restrict total lending to buy-to-let landlords (Kazi and MacFarlane, 2022).

### Limiting profits from speculating on property

In addition to the availability of credit, a core driver behind the desirability of investing in property has been that rising housing prices have offered landlords significant financial returns. Re-orientating lending towards first-time buyers ought to mean targeting these unearned gains, with the receipts supporting the wider public good.

A key way to achieve this is through putting the reforms proposed in this paper in a wider strategy for limiting house price growth, to bring prices back in line with earnings over time. In the meantime, fiscal reforms which could dampen the gains

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from speculating on rising property values, will be key to undermining the desirability of property as an asset and the negative consequences which flow from this.

This should include reforms on taxation which bring the rates paid on gains-made wealth, particularly that derived from the ownership of second homes, into line with taxation on earnings. Our work in this area will explore whether the existing tax regime could be improved, alongside potential changes to stamp duty, capital gains, and council tax.

### Providing sustainable options for investment

Alongside the ‘stick’ of regulatory and fiscal changes which undermine the attractiveness of property speculation, it will also be important to understand how alternates can be created. This could both interrogate why we have become so dependent on property wealth to provide an income during retirement, and propose solutions for more sustainable retirement provision, including greater state investment in welfare, pensions, and social care services.

This should sit alongside mechanisms to divert private investment into more socially productive models, such as those which could support the retrofitting of homes or the financing of social and affordable housing. This could be achieved through bonds or investment products which might take inspiration from public sector pensions, some of which are already examining how to utilise their investment power to achieve social returns (The Smith Institute, 2021), and models such as community share offers (Resonance, 2022), which are often utilised by community land trusts.

### Guiding an equitable shift away from private renting

Active policy, in line with that set out so far, can lead to a natural reduction in the size of the private rented sector by inducing a sell-off of existing stock. Such a sell-off presents an opportunity for proactive, market shaping policy to build a more equitable housing system. This should be focused on providing a route for landlords to exit the market in a way which supports the shift to greater homeownership and social housing. These policies could both be reactive, while also playing an important role in actively shrinking the sector.

### Models for supporting access to homeownership

Supporting households to become homeowners has been a significant focus of housing policy in the last decade. A number of schemes have been launched, yet the problem remains stubbornly persistent with many successive governments criticised for helping principally people who could have bought without help or who were on the very margins of homeownership (NAO, 2019; Earwaker, 2020).

Addressing the barriers to ownership requires a much greater focus on reducing the growth of house prices in line with earnings. At the same time, a sell-off of homes owned by landlords creates the opportunity to support current renters to purchase homes. This could target sitting tenants by giving them the ability to buy the home they are currently renting, or it could more generally support renters to purchase homes which become available in the secondary market.



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Focussing on the secondary market allows an opportunity to design schemes which offer a more effective route to supporting homeownership, particularly given the lower average costs in the secondary market when compared to new-build homes. These efforts should go back to first principles, understanding the core barriers and then setting out how best to overcome them.

This should explore mechanisms for tenants to purchase their rented home. This could be achieved through a Right to Buy for private renters, which offers a discount similar to that for council tenants, paid to the landlord or tenant or lender by government.

### Models for the socialisation of existing stock

Focussing on the secondary market, particularly in the context of a shrinking private rented sector, offers an opportunity to rapidly scale social housing stock through utilising existing stock. Local authorities, housing associations, or community and cooperative organisations should be supported to buy homes in the secondary market, re-fit them to a high decency and environmental standards, and then let them out at affordable rents.

Such an approach also has the potential to address multiple policy goals at once. For example, as well as expanding social housing supply, the socialisation of housing stock offers a revenue-raising means of bringing stock up to the environmental standards needed to meet net zero targets, while also supporting the regeneration of local places.

This should seek to learn from efforts to re-fit and re-use existing stock that are already happening across the country. A number of community groups, such as Homebaked CLT (Home Baked Community Land Trust) and North Ormesby CLT (Community Led Homes, 2020), are buying and refitting homes in this way. While at a larger scale social investors such as Resonance, and Social and Sustainable Capital, are operating funds which are finding ways of supporting front-line organisations to make use of homes in the secondary market. Some local authorities have also been intervening in the market to purchase homes which have been sold under the Right to Buy, bringing them back into local ownership and renting them out as council housing (Heath, 2018).

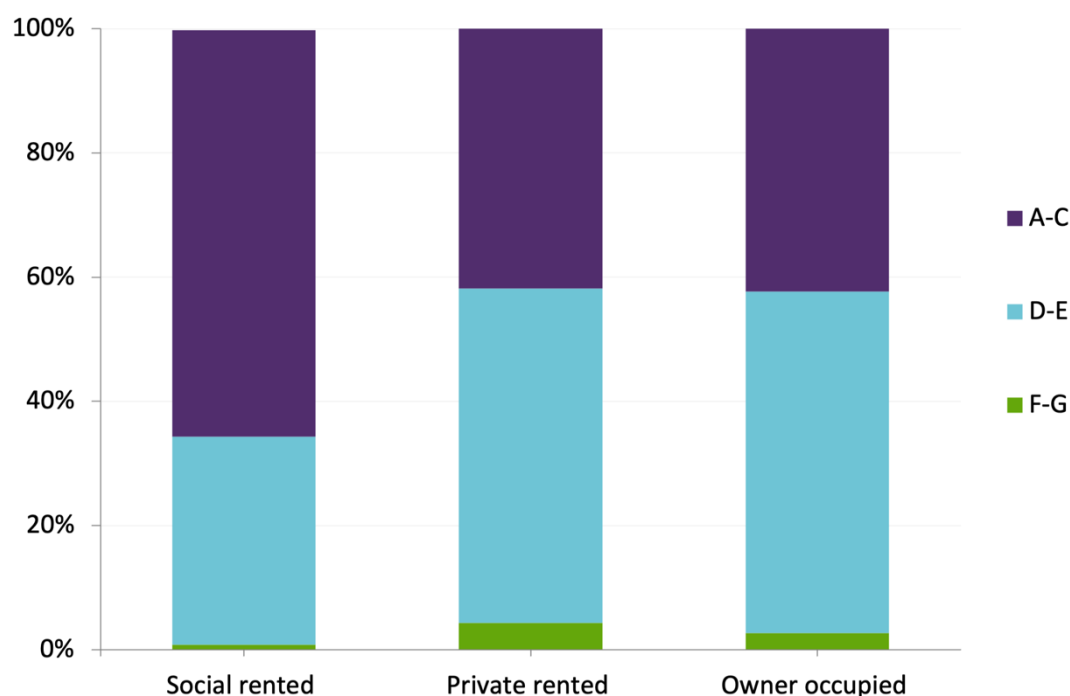
Currently however, there is little large-scale national coordination or funding to enable these models. Government should look to create a funding stream, similar to the current Affordable Homes Programme, to enable registered providers and community and cooperative organisations to develop and scale models of socialisation.

Such a proposal could allow homes to be proactively bought up as they become available. At the same time, proposed policy changes could be utilised to actively socialise homes in the sector, particularly in the context of proposed requirements which ask landlords to make improvements to homes.

Reforms proposed by the Government would mean that private rented sector homes will need to meet the Decent Homes Standard and reach Energy Performance Certificate (EPC) C standard by 2030 (BEIS, 2021). The private rented sector is the

tenure with the highest proportion of homes which fail to meet decency standards (DLUHC, 2021a), while estimates suggest that 62% of all homes in the sector are below EPC C). Meeting this standard across the sector will require a significant capital investment in these homes, averaging around £8,000 per rented home (Octane Capital, 2022, with further investment likely needed to bring homes in line with the Decent Homes Standard.

**Graph 9: A majority of homes across the private rented sector and owner occupation fail to achieve an EPC C rating**



JRF analysis of English Housing Survey 2020 to 2021: Housing stock annex tables.

Government should implement these requirements for private rented sector homes to meet EPC C and the Decent Homes Standard and see them as a key lever for delivering a higher-quality, and better-managed private rented sector.

These reforms are likely to drive landlords out of the market who had not expected to be making such significant capital investments. Already, landlord groups are calling for greater government funding to meet the retrofit challenge (NRLA, 2022c).

Effectively, this would mean funding private landlords to make improvements to a commercial asset, let at market rates, and which could be disposed of to realise capital gains at any point. Instead, the Government should look to gain a larger social return from their spending by developing a model for funding retrofitting homes with a commitment from landlords to socialising the home, letting it long-term on a more affordable rent. This could, in-keeping with pre-existing leasing schemes (see: Alma Economics, 2021), be administered by intermediaries such as local councils or registered providers.

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## Supporting renters to sustainably build wealth

A cross-cutting consequence of the shift in the distribution of homes has been an impact on driving wealth inequality, as some households have been locked out of homeownership, while others have been able to rapidly expand their wealth by utilising existing assets to build property portfolios. Improving access to homeownership, as already described, is one means to achieve this. But it will not be available to many, particularly not people on lower incomes.

We should focus greater attention on means of supporting households to build some equity or wealth enabling them to support greater financial security, close inequalities in wealth, and to act as a bulwark against poverty and destitution. This could be achieved through two areas. Firstly, supporting the greater proliferation of housing models which offer an ability to build some, if not 100%, equity over time. Secondly, looking at ways renters can be supported to build wealth more generally, through sustainable means.

On the former, the current housing system is largely binary when it comes to building equity. Homeowners are able to build wealth as the largest part of their mortgage payment goes towards paying the cost of the home. Alongside acting as a form of saving, it also means lower costs later in life. Whereas renters, particularly people in the private sector, do not see that benefit. And, while Right to Buy has historically performed this role for social housing tenants, the shift in the make-up of this tenure means fewer can afford this route, while it also leads to a loss of much needed housing stock for would be tenants.

There is an opportunity here to reform the Right to Buy to ensure it works more effectively. This could be achieved through allowing councils to retain 100% of the receipts from sales under the policy, allowing them to re-invest them in new homes. But to address this challenge we need to look at other areas.

Part-rent part-buy models such as shared ownership, which allows a household to buy a share of their home and rent the rest from a social landlord, and rent-to-buy, where a renter has an option to buy their home after an initial period and is granted a cash back sum to use as a mortgage deposit, offer a solution to this. However, these models represent a relatively small part of the market. A greater focus should be placed on understanding how these could be further expanded and work well for prospective buyers.

Additionally, it is worth considering how models of wealth building can be achieved outside of individual property altogether. This could be through methods which support renters to save – such as by overpaying rent to smooth out arrears. It could be through asset or equity transfer, such as offering renters an ownership stake in their social landlord. It could also be through models which build community wealth or collective ownership. For example, some of the models discussed for socialising homes could be held in collectively owned structures by their tenants, enabling greater control alongside the ability to build a share of the total asset, to be withdrawn when needed.

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## **Managing a transition to a smaller, higher-quality private rented sector**

A core aim of shifting the distribution of housing is to create a smaller but better managed and higher-quality private rented sector. As was noted earlier in this paper, some have argued that shrinking the sector would lead to problems for the tenants. Principally through a shortage of homes, leading to problems of access and higher rents.

As noted previously, this largely misunderstands the nature of the market. As landlords outside of the build-to-rent sector are typically not adding to supply, when they sell this should not have an impact on supply, with these homes bought by other landlords or owner occupiers. In a scenario where the number of landlords leaving the sector is larger than those entering, we would expect to see a decline in the proportion of rented homes, and a corresponding growth in owner occupiers. Research cited earlier in this paper found no evidence that a reduction in the size of the private rented sector will increase rents (Wilson-Craw, 2018).

Implementing our proposals for market intervening policies which support private tenants to move tenure, to social housing or owner occupation, would further help to mitigate this trend.

Despite this, a contraction in the sector could lead to some transitional challenges for particular groups. As homes will tend to be bought by single households, this may displace and create shortages for households currently living in homes of multiple occupancy.

A contraction in the private rented sector may also impact particularly on renters on lower incomes. Research in Scotland evaluating the roll-out of their tenancy reforms has found tentative evidence of a contraction in what they term the ‘housing benefit market’ – those landlords who tend to rent to lower-income private tenants. However, it was noted that this had more to do with problems with the Universal Credit system’s administration and adequacy, than with the new tenure rules (Rent Better, 2022). This, they argue, is limiting options for people in receipt of social security in finding new homes.

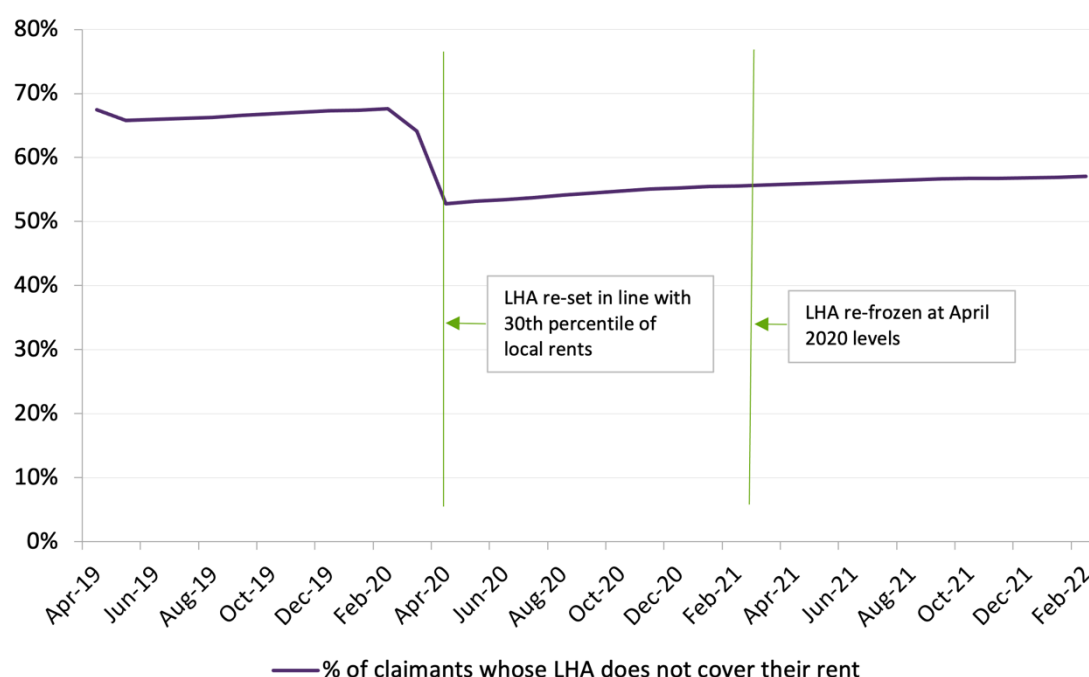
Fully understanding who may be at risk in the transition to a smaller private rented sector will require further analysis, but action in two areas would be helpful in mitigating some of the impacts.

Firstly, where tenants are finding themselves having their home repossessed in order for a landlord to sell and exit the market, they should be provided with compensation for the disruption this causes. This amount could be set at a number of months’ rent, and would help to mitigate the financial costs of moving at short notice and support with access to new housing.

Secondly, the Government should improve the market position of lower-income renters by improving the adequacy of local housing allowance (LHA), the benefit designed to help renters with the cost of housing.

Cuts and changes to the Local Housing Allowance rate since 2012 have reduced its generosity, meaning a significant number of claimants face a gap between the support on offer and the actual cost of rent. In February 2022, 56% of all Universal Credit claimants who were in receipt of LHA for private rented homes saw a shortfall between their payment and their rent. This had fallen from 68% in 2019 following the welcome re-linking of LHA to the bottom 30% of rents in response to the coronavirus pandemic. However, as LHA has since been re-frozen, and rents continue to increase it is likely that the number of claimants who are facing a shortfall will be once again growing.

**Graph 10: The proportion of claimants whose Local Housing Allowance does not cover their rent has risen and fallen in response to Government policy**



Source: JRF analysis of Stat X-plore

These various changes to the system have undermined its effectiveness. At the very least the Government should re-link LHA in line with the 30<sup>th</sup> centile of local rents and ensure it keeps pace with future increases in rents. Beyond this, there is a need to explore how the system can be reformed in ways that sustainably enable households to navigate the private rented sector. Doing this in the context of attempts to reduce the size of the private rented sector will also mean this can be achieved more cost effectively.



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## Conclusion

This paper has made the case that the distribution of homes in the housing system has changed in notable ways in the last two decades, and particularly since the Global Financial Crisis. This has created winners who have benefited from rising asset values and rental yields at the expense of the economic security of a significant number of households, who face unaffordable, insecure housing.

It has offered the argument that shifting the distribution of homes should be a core goal of housing policy. One which would have a significant and rapid impact in bringing about greater affordability, security, and access to opportunities to build wealth. To do this, that policy should focus on four areas:

- Setting a strategy for reducing the size of the private rented sector, returning it to a tenure that provides security for those who need it, by rebalancing the relative position of first-time buyers and landlords in the mortgage market and dissuading property speculation.
- Exploiting and supporting any reduction in the size of the private rented sector with market intervening policy which expands the supply of social housing and supports households into homeownership.
- Expanding the routes renters have available to them to build sustainable wealth.
- Ensuring that the transition to a smaller private rented sector is managed equitably, with a particular regard for renters on lower incomes.

We are keen to get your views on, and challenge to, this argument. This will be used to support the next steps in JRF's programme of work around this, which will dig into key areas in an attempt to advance them through policy development, research and practical, real-world interventions.

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## Notes

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<sup>i</sup> JRF analysis of Table 1000: additional affordable homes provided by type of scheme, England (Average annual social housing additions taken as the average number delivered between 2016-17 and 2020-21, rounded (51,500 units a year). <https://www.gov.uk/government/statistical-data-sets/live-tables-on-affordable-housing-supply>.

<sup>ii</sup> JRF analysis of Dwelling Stock Estimates – England (Historical).

<sup>iii</sup> JRF analysis of ONS (2022).

<sup>iv</sup> JRF analysis of DLUHC dwelling stock estimates.

<sup>v</sup> JRF analysis of Table 58, Gross social housing investment in Great Britain and the United Kingdom excluding private finance in Stephens et al (2021).

<https://www.ukhousingreview.org.uk/ukhr21/compendium.html>

<sup>vi</sup> JRF analysis of Stephens et al. (2021) and DLUHC Dwelling Stock Estimates.

<sup>vii</sup> JRF analysis of DWP Family Resources Survey 2019-20, English Housing Survey 2018/19, English Private Landlord Survey 2021.

<sup>viii</sup> JRF analysis of DWP Family Resources Survey 2019-20, ONS Wealth and Assets Survey 2020, DLUHC Dwelling stock by tenure England live table 104, Land Registry house price data 2022, English Private Landlord Survey 2022, English Housing Survey 2020.

<sup>ix</sup> JRF analysis of DLUHC (2021) and DLUHC (2022a).

<sup>x</sup> JRF analysis of Table 1000: additional affordable homes provided by type of scheme, England in DLUHC (2022a). (Average annual social housing additions taken as the average number delivered between 2016-17 and 2020-21, rounded (51,500 units a year).

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## About the Joseph Rowntree Foundation

The Joseph Rowntree Foundation is an independent social change organisation working to solve UK poverty. Through research, policy, collaboration and practical solutions, we aim to inspire action and change that will create a prosperous UK without poverty.

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