the end of the affair:

implications of declining home ownership

By Andrew Heywood

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Foreword

Paul Hackett, Director of the Smith Institute

The promise of home ownership has been at the heart of the UK's political discourse since the mid 1970s, when only half of all households were owner-occupiers. Since Thatcher's "right to buy" in the 1980, a long line of housing ministers from both the main parties have pushed for policies to get more people onto the property ladder. The net result, fostered by financial deregulation, was an increase in home ownership to a peak of just over 70% in 2003 – above that of the US and a number of European countries.

However, home ownership is now on a downward trend, as a result of various social, economic, political and demographic changes. The talk of aspiration and security through home ownership has given way to serious concerns about widening housing inequalities, falling house prices, under-supply of new homes, and a shift away from reliance on asset-backed welfare and housing as a private investment.

This report not only comprehensively documents and explains the decline in home ownership; it also explores the short- and longer-term costs and consequences for government, housing associations and the fast-growing private rented sector. It takes forward the Smith Institute's work on affordable housing and place making and calls for a realistic dialogue between government, housing providers and funders. The report raises some critical and timely questions about how we readjust to a new world of declining levels of owner-occupation, house price uncertainty, and falling housing values.

We would like to give special thanks to Andrew Heywood (independent consultant, editor of *Housing Finance International* and visiting fellow at the Smith Institute) for writing this report and to all those who attended the home ownership consultation round table we held in March 2011. We would also especially like to thank Genesis Housing Association for supporting this project.

Executive summary

Executive summary

This report focuses on the causes and implications of falling home ownership levels and the corresponding growth of the private rented sector (PRS) in England. Its aim is to precipitate a strategic discussion on one of the key challenges for the housing sector and for policy makers across the spectrum of government activities. Though information on falling ownership levels has reached the public domain, there has been little analysis or debate. Many commentators and much of the political class are in denial. The report discusses the challenges that changes in tenure pose for government and the affordable housing sector.

Home ownership in England has declined to 67.4%, and this appears to be a continuing trend. There has been a corresponding and rapid growth in the PRS to 15.6%. Since these latest figures, private rental may already have become the second-largest tenure in England. If current trends were simply to be projected forwards (a procedure not without risk), home ownership levels will be around 60% by 2025 and private rental well above 20% by 2020. If on current trends the percentage in occupation does fall to 60%, then by 2025 there would be 1.9 million fewer households in home ownership than previously expected.

The aspiration to own one's home remains high, but there are signs that expectations may be moderating, especially among the young. Nevertheless, promotion of home ownership still has strong political salience. During the past year, both the Conservatives and Labour have reaffirmed their commitment to extending home ownership. The Liberal Democrats are reviewing their housing policy and may prove more equivocal. The Coalition government affirmed its commitment to extending home ownership in housing minister Grant Shapps' "Age of Aspiration" speech of June 2010.

Much government policy and activity is predicated on high and rising levels of home ownership. This includes economic policy, asset-based welfare policies such as elderly care in the community, revenue from taxation including stamp duty land tax, and a range of other services. This is not, incidentally, just a UK phenomenon.

The rise of home ownership in the 20th century

In 1918 the home ownership level was at 23%, with the PRS standing at 76% and public housing at around 1%.

The pattern of tenure change from 1918 until the 1980s was one of expansion both in owner-occupation, which grew from 23% in 1918 to 57% in 1981, and in public housing, which peaked at over 31% in 1981. The PRS declined dramatically over the

period, from 76% to 9% in the late 1980s, after which it began to grow.

Government intervention was important throughout the period, though rarely decisive except in the case of direct intervention to develop local authority housing; an on-going commitment larger in real terms than any government housing initiative seen in the last 30 years.

Key initiatives by government over the period include:

- promotion of private speculative building in the 1920s and 1930s;
- maintenance of PRS rent controls and security of tenure more or less continuously from 1918 until 1988, which effectively inhibited landlords from investing in the PRS;
- the prefabricated and public housing programmes of 1945-51, which produced well over 800,000 new homes in total;
- relaxation of wartime controls on private building and abolition of development land taxation by Harold Macmillan as minister for housing and local government in 1951;
- the various initiatives to promote mortgage finance, usually marginal in overall effect but helpful to individuals;
- the abolition of taxation of imputed rental values of owner-occupied housing in 1963, while leaving mortgage interest tax relief (MITR) intact – this concession became more important (and expensive) until MITR began to be phased out after 1991; and
- the expansion of council house sales to sitting tenants in the 1970s, which totalled 150,000 in that decade and were a real precursor to the RTB.

Favourable social, economic and market trends were a sine qua non for development of owner-occupation over the period as a whole. In addition, the rise of the welfare state provided a level of financial security that was conducive to a rapid expansion in home ownership.

Recent trends – the 1980s and beyond

Following the election of the Thatcher government in 1979, major changes took place in housing policy that were soon accepted by both parties and which were continued by Labour after 1997.

Public expenditure on housing declined sharply in real terms. Relative to overall government spending, housing expenditure fell from 5.6% in 1980/81 to 1.3% in

1999/2000 and was still only 2.7% in 2008/09.

Private finance was levered in on a large scale, following the introduction of large-scale voluntary stock transfer in 1988. By 2011, £48.9 billion of private finance had been drawn down; more than the totality of embedded social housing grant.

The shifts in government policy comprise a number of strands:

- a decline in direct housing expenditure as a proportion of government expenditure, involving a shift from supply-side subsidy to demand-side subsidy (housing benefit);
- a move away from provision of homes by local authorities towards housing associations;
- a progressive replacement of direct public capital expenditure on social housing by private finance;
- an increasing residualisation of social housing from the provision of homes for general needs to provision for the most disadvantaged; and
- a strong emphasis on the promotion of owner-occupation for all but the most disadvantaged, and a decisive overall shift away from the provision of new public/social housing in favour of private homes, mainly for owner-occupation although with a significant minority actually going into the PRS since 2000.

Right to Buy (RTB) was the most significant and by far the most successful measure in relation to home ownership. Since 1979 some 1.9 million homes have transferred from local authorities to owner-occupation. Without RTB the tenure balance in England would be much closer to that of 1981. However, RTB is probably unrepeatable as a policy initiative.

In contrast to RTB, the results of 30 years of activity on low-cost home ownership (LCHO) have been meagre. LCHO activity has probably added less than 2% to the level of home ownership, in spite its stated importance for government policy over the period. There must be doubts about LCHO as a tool to promote home ownership, particularly as since 2007 the programme has run into trouble. Development levels are likely to fall and the cross-subsidy model is unviable in much of the country.

The Thatcher government initially raised the threshold for mortgage interest tax relief (MITR); however, by 1991 it effectively amounted to a tax subsidy of more than the entire government housing and communities' budget. It had been wound up by 2000. MITR provided a powerful incentive to individuals to gain access to home ownership.

In the end, however, the cost to the Exchequer was too great. It was a successful but probably unrepeatable policy.

The renaissance of the PRS over the past 20 years was a major success for successive governments. The Housing Act 1988 reversed three-quarters of a century of over-regulation by introducing the assured shorthold tenancy, allowing landlords to regain control of their properties by notice and enabling them to charge market rents. The PRS grew from 1.7 million homes (9.1%) in 1988 to 3.6 million(15.6%) in 2009/10. Labour introduced only very limited additional regulation to the sector and the Coalition has announced that there will be no additional regulation.

The availability of buy-to-let (BTL) mortgages after 1996 was a major factor in PRS expansion. There is now a funding problem in respect of the PRS, because of the reduction in the level of BTL finance since the banking crisis.

The historical analysis in this report can contribute to some cautious observations that may assist in considering what options may be viable for government in the future in relation to a decline in home ownership levels:

- Government intervention appears to work best when it runs in parallel to underlying socioeconomic or market trends.

- Government action is rarely decisive in terms of modifying fundamental trends in tenure. When it succeeds in doing so, it tends to be by way of very costly programmes such as the post-war construction of public housing or "once only" initiatives that are only sustained for a limited period.

- Government policy action appears to be often subject to unintended consequences; the over-regulation of the PRS is a useful illustration.

- The positive political salience of government measures does not ensure their success on the scale hoped for; LCHO activity since 1979 is a case in point.

Home ownership levels fall

As already indicated, home ownership levels have fallen in percentage terms since 2003, from 70.9% to 67.4% in 2009/10. Numbers of owner-occupied households have dropped by 265,000 since 2005. There has been a corresponding growth in the PRS, which may already have overtaken the social rented sector numerically in England.

Were recent trends to be arithmetically projected forwards, home ownership levels in 10 years' time might be close to 60% and the PRS might be around 24%.

A number of fundamental social, economic and market factors have caused the decline in home ownership:

- The affordability of owner-occupation has deteriorated over the long term. Average house price increases outstripped average earnings from 1970 to 2000 in all areas of the UK except Scotland. Since 1980 the incomes of higher earners have risen faster than those of others, leading to greater pressure on those at the margins of home ownership. There has been a long-term drop in the proportion and numbers of first-time buyers (FTBs) and a decline in the rates of owner-occupation among younger age groups since the late 1980s.

- The UK mortgage market has changed radically since the onset of the banking crisis in 2007. Those changes are unlikely to be temporary. From the late 1990s an unparalleled expansion in mortgage lending on favourable terms fuelled the housing market bubble that burst in 2007/08. The results were unsustainable. The number of loans for house purchase has more than halved between 2007 and 2010. High loan-to-value (LTV) lending, lending to those with chequered credit histories or low and insecure incomes, and lending to those with small deposits, have been particularly hard hit. The availability of mortgage finance is most unlikely to return to the levels of the years before 2007, for a range of reasons – including changes in consumer regulation and more stringent capital requirements on lenders.

- Household formation is likely to be fastest among single adults and among over-65 households. This is consistent with declining rates of home ownership, as neither group tend to access home ownership in such large numbers as "conventional" families.

- Migration is now a significant factor, with the Home Office granting 2.1 million entry visas in 2010. Recent migrants tend not to access home ownership but to choose the PRS.

- Work patterns are changing, with more labour mobility, less secure full-time employment and more part-time, casual employment and self-employment. Overall, job security has been eroded. The PRS is more appropriate for an increasing proportion of the workforce.

- Personal indebtedness is an issue for many in the UK. In the post-credit crisis environment, high levels of unsecured debt will make it difficult for a wide swathe of individuals to access mortgage finance or to remortgage if they are already home owners. A related problem is that of mortgage arrears and negative equity. Commentators are predicting an increase in repossessions. The future ownership prospects for those who lose their homes as a result of repossession will be grim. The increase in student debt since the mid 1990s has had an impact on the age at which FTBs enter home ownership and on their propensity to do so.

- During the past 20 years there has been a shift in the balance of direct taxation in favour of landlords and away from owner-occupiers. The 2011 Budget promises to take this shift further, with concessions aimed at investors in the PRS. The benefits system is inequitable between tenants and owner-occupiers. Owner-occupiers as a group receive less than 10% of the total assistance given to tenants in cash terms.

- Increased longevity, and inadequate saving and pension provision, together with the collapse in defined benefit occupational pension schemes, will tend to promote disinvestment in the housing market among older age groups. The costs of elderly care are exacerbating this. The situation is likely to contribute to falls in home ownership levels and to a crisis in funding pensions and care for those without housing equity.

There is every reason to believe that home ownership levels will continue to decline and the PRS continue to grow. An increasingly large proportion of households will in effect be excluded from the benefits (and the risks) of home ownership, and for these households wealth will be painstakingly acquired through personal saving rather than via a continuously rising housing market.

The challenge for government

The challenge of falling owner-occupation for government policy goes way beyond housing policy. The challenge encompasses the economy, and a swathe of welfare policies and services. The state has withdrawn provision of funding in many areas in favour of "asset-based welfare" relying principally on growing housing equity. The following are areas where falling home ownership will have significant effects:

Housing policy

The key question for government is whether the decline in home ownership is reversible.

In the past, government has tended to act to encourage or slow down existing trends. It has rarely reversed a trend or created one. The public housing programmes from the 1920s to the late 1970s represent one exception. Public-sector housing completions rarely fell below 100,000 per year between 1948 and 1971, whereas in 2010 completions across all tenures totalled only 103,000. However, the public programmes involved expenditure on a level that no government of the past 30 years has considered. Government should assess whether the relatively low priority for housing in expenditure terms is still appropriate.

Concessions such as RTB and MITR are probably unrepeatable policies because of cost or other factors making them politically unacceptable.

Over a 30-year period, LCHO has not produced the results claimed for it in terms of overall home ownership levels, in spite of all the political rhetoric expended on it. Going forward, it should be justified in terms of assistance to particular targeted groups such as key workers, rather than as a means to raise the overall level of home ownership.

There is a clear need to increase the supply of new housing. This should in tenure terms be focused more on affordable and market renting than it has been in the past. Allowing house prices to fall over the long term, as Grant Shapps has suggested, will not be a solution. It will make home ownership a less attractive option and will further undermine the commitment of lenders to offer high-LTV loans.

Overall, the government should accept that home ownership levels will continue to fall and should plan accordingly to promote the supply of rented property. This will involve finding a solution to the issue of funding the PRS. BTL finance will not be as generous as in the pre-2007 period and institutional investment is not currently attracted by the returns available. The 2011 Budget offered the prospect of financial concessions to raise financial returns in the PRS, but government may have to go further.

The economy

In the context of rebalancing the economy the Coalition should, as a priority, examine the role owner-occupation currently plays in economic activity and the economic implications of falling home ownership and higher levels of renting.

Falling home ownership may actually help rebalance the economy away from consumption, as it is believed that rising levels of home equity tend to encourage spending and a lower rate of saving. This requires further research. A larger PRS may assist in the promotion of a more mobile and flexible labour force.

Vital questions for government now include:

- consideration of whether a contracting housing market will be less prone to "bubbles", with their wider economic consequences;
- whether it is advantageous for such a high proportion of personal wealth to be locked up in one illiquid asset class, in other words housing;
- whether the lack of perceived personal security that goes with possession of housing equity may lead to chronic under-consumption; and
- the multiplier effect of housing expenditure within the wider UK economy.

Taxation

The Coalition has already introduced tax concessions for corporate landlords into the 2011 Budget in the form of commitments on stamp duty land tax and real estate investment trusts (REITs). It may have to go further if an investment famine in the PRS due to a reduction in BTL mortgage finance is to be avoided.

Government should examine the impact of falling home ownership levels on stamp duty land tax revenues more generally. These grew in importance as a revenue stream for the Exchequer during a long period of rising house prices.

It may even be that the Coalition will wish to consider some tax concession along the lines of MITR to encourage access to home ownership. However, apart from the expense that such a measure would involve if it were to be effective, there is real risk of market distortion.

Welfare and service provision

For 30 years successive governments have sought to transfer responsibility for welfare and services from the state to individuals. This move towards "asset-based welfare" was made possible by increased levels of home ownership and rising house prices.

Research shows that low-to-middle earners (a traditional client group for affordable housing providers) are progressively failing to gain access to home ownership and that their personal finances are increasingly precarious.

The fact of falling levels of home ownership raises vital questions about the future of asset-based welfare if those most needing the welfare are increasingly not going to possess the assets. Will this necessitate a return to welfare based on "tax and spend" or will some other type of funding be found? Whatever the answers prove to be, the questions should be asked now.

Managing aspirations and needs: the overall challenge

If home ownership levels continue to fall, there will be a real necessity for government to manage down aspirations and expectations in respect of owning their home among a growing section of households. This will in part involve providing an adequate supply of affordable and good-quality homes to rent. However, it will also involve ensuring that a range of other personal needs are met and that the values embodied in the twin concepts of home and community shift to reflect changed realities. Responsible government has always acted to mitigate the negative consequences of social change; the present government should be no exception.

The challenge for affordable housing providers

The challenges for affordable housing providers – whether local authorities or housing associations (HAs) – are urgent and serious. The issues for affordable providers are focused around two main areas: firstly, tenure choice in terms of new development and, secondly, the problem of maintaining the level of new affordable housing supply within an increasingly difficult external environment.

Tenure: what to build and why

Home ownership is slowly moving out of the reach of those who traditionally benefited from shared ownership. This is not an unexpected outcome in a situation where home ownership levels are falling, since analysis of the key factors suggests that those with lower incomes and less secure lifestyles would be most affected. LCHO sales may continue but will be to a progressively more affluent client group. Developers may also have to look carefully at the type of properties that LCHO providers will build going forward. In spite of pressure to generate a cross-subsidy, HAs will have to react to a tougher marketplace by offering the homes that buyers want; private developers are increasingly moving away from high-rise flats to homes with gardens and to substitute value for volume. HAs will have to decide on the extent to which they wish to compete.

All this raises serious questions about the purpose of LCHO activity: is it another way of assisting low earners? Is it primarily a way of generating a cross-subsidy for other development? Or is it simply a commercial activity that houses those who can afford to purchase its products? The above analysis strongly suggests that, apart from the (problematic) cross-subsidy question, LCHO will increasingly have to be justified on non-traditional grounds such as a local need to house key workers or the need to promote mixed communities by bringing higher-income groups into a particular development.

By contrast, market renting should be a growth area for HAs. Assuming that providers can deal successfully with questions about tenant satisfaction and competition, then the PRS offers a number of opportunities to resolve issues, including serving lower-income households, promoting mixed communities, operating within a growing tenure, and generating additional financial capacity.

HAs (and potentially local authorities) will have to consider a more complex tenure map, which will include market renting and affordable renting as well as LCHO and social renting. In addition, they should be aware that tenants paying market and affordable rents will tend to resemble tenants in the PRS rather than those in the social rented sector, in terms of both assertiveness and mobility. HAs will have to become even more customer-focused and will have to embrace the culture of the lightly regulated PRS. While a broader engagement with market renting is probably necessary and would secure some development, it would not address the gap in provision among low-to-middle earners and those who would previously have gained access to social rented homes. The latter might access affordable rental properties, but higher rents would disadvantage those seeking work. Intermediate rental development, though desirable, would be problematic in terms of viability where significant grant or an ultimate sales receipt is required.

Some commentators have already reacted to the growth in the PRS by calling for more regulation. This is a mistake. Over-regulation effectively inhibited the PRS for 70 years of the 20th century.

Affordable supply: a major challenge

LCHO development levels are now falling, and all the evidence is that they will fall further. Shared-ownership completions fell by over 20% in 2009/10 compared with the previous year. Since the banking crisis of 2007, the cross-subsidy model for development has come under increasing strain, though government and the Homes & Communities Agency (HCA) continue to press for maximum receipts from open-market sales.

There is now a lack of confidence among developers of affordable housing and a desire to avoid over-exposure. This has been exacerbated by impending housing benefit changes and a range of other uncertainties emanating in part from the policy intentions of government itself.

There is evidence that bidding in the latest grant round has been cautious and that HAs are arranging less and less new debt for development.

Even without falling home ownership levels, it seems certain that a new model for development would be urgently needed. Declining home ownership will cause additional difficulties in terms of demand for LCHO products, particularly if HAs stay true to their social purpose and target their traditional customer groups.

Price: the big issue

Future trends in house prices are key to the strategy and risk assessment of affordable housing development. After a partial recovery, prices have been falling again. The Office for Budget Responsibility predicts further falls in 2011. Falling levels of home ownership will tend to alter the relationship of supply and demand and weaken the trajectory of house prices.

Housing minister Grant Shapps has suggested that prices falling long-term against earnings will be a solution to affordability problems. However, falling prices over the long term will make home ownership fundamentally less attractive as an option by eroding deposits and mortgage payments. Lenders will be less willing to lend at high LTV or for long terms.

More research is badly needed in this area, as falling prices make ownership less attractive, put further pressure on the cross-subsidy model, and raise serious ethical issues for HAs as to whether they should be encouraging those on lower incomes to invest in this way.

Towards a response

HAs should have an integrated strategy to take account of the implications of falling home ownership levels and potentially weaker price trends. It will not be enough to have stimulating discussions at board strategy days if assumptions remain the same across the rest of the organisation.

LCHO: HAs should not necessarily take an instant decision to abandon LCHO activity. Tenure change is a gradual process and the cross-subsidy model will still work in some areas, such as parts of London and the South East. However, the client group will become more affluent over time.

Nevertheless, if HAs are to trade successfully at the vulnerable margin of a declining tenure, they will have to learn from the mistakes of the post-2007 period and not take business decisions for political reasons. They should be more attuned to the market and less to abstract calculations about grant and surplus sales revenue.

There is still potential for further reform of LCHO. Two examples are:

- Further negotiations could be carried out with the Financial Services Authority (FSA) to put across the case for reduced capital requirements for lenders on high-LTV lending for shared ownership. A case can be made and the benefits would be significant.

- The widely acknowledged problem should be addressed of the lack of a developed secondary shared-ownership market for the properties of the majority who have not staircased to full ownership. This is likely to be an increasing deterrent to new buyers, who risk being unable to realise the full value on their shares or even being trapped in a property they cannot sell. The sector as a whole should investigate the establishment of a national clearing house or similar, to enable prospective buyers and sellers to be brought together.

Some HAs may wish to investigate the possibility of hedging themselves against falling house prices, but the potential benefits are probably very limited.

The PRS: Affordable providers should consider increased investment in market renting to maintain mixed communities and to ensure their activities are congruent with the expansion of private renting in general. This will involve greater attention to management costs and competitiveness.

Investment in market renting may have positive implications for financial capacity compared with affordable rents. There may also be opportunities for cross-subsidy of affordable development from market renting in certain areas, such as parts of London. However, such cross-subsidy will not work anything like as widely as LCHO used to do.

A case for supporting increased investment in market renting will need to be made by the sector to government and to the HCA. They would be wise to listen.

Realism needed

Nevertheless, in overall terms HAs must exercise realism. Without subsidy there is no subsidised housing, and without the level of public financial commitment approaching that of the government housing programmes of the 1950s and 1960s it is difficult to see anything but further decline in affordable development.

In these circumstances HAs should return to a stronger focus on their role as landlords as a measure of excellence.

Conclusion: new paradigm, new strategies?

The apparently inexorable rise in home ownership has gone into reverse, while the PRS is growing rapidly. There are a range of long-term and/or fundamental factors that explain why this change in tenure balance has occurred and which suggest that it will, all things being equal, continue. These include: worsening affordability, mortgage market retrenchment, demographic changes, high levels of personal indebtedness, changes to taxation, poor pension provision and moves to asset-based welfare, notably in relation to the elderly.

The challenge for government

Government must be realistic and open about its own willingness and capacity to reverse current tenure trends. If, as this report suggests, these will not be reversed, then government will have to manage down popular aspirations to avoid disillusion.

Specifically, government must:

- secure adequate funding for investment in a growing PRS;
- address the supply issue – overall, owner-occupation is unlikely to drive adequate new supply of housing and the PRS may not receive sufficient investment either, while in addition the affordable housing development model is under severe strain; and
- re-examine government policy across the board – falling home ownership and a resurgence of private renting have implications for policy, from the economy to taxation. As part of this review government should re-evaluate the shift toward asset-based welfare, in a situation where those most needing the welfare will increasingly not possess the assets. Is it back to "tax and spend"?

The challenge for affordable housing providers

This report raises serious issues for providers in relation to the future social purpose and scale of LCHO activity. These should be urgently addressed.

HAs will need to actively engage in market renting to offer options to those for whom home ownership is no longer attainable, to foster mixed communities and to address issues of financial capacity and long-term viability.

The supply issue remains intractable, and falling levels of owner-occupation put additional strain on the cross-subsidy development model.

The affordable sector needs a sector-wide discussion on the above matters and on its

own current, rather negative attitude to the PRS; this must change. A dialogue with the HCA, the Tenant Services Authority (TSA) and government is also urgently needed to encourage them to decouple their strategic thinking from a continuing reliance on rising levels of home ownership.

Towards a new social vision

In considering a strategic response to what could prove a continuing shift in the balance of tenures, the issue of an alternative social vision will therefore inevitably be raised. Such a vision will have to encompass the role of the state, the funding of welfare, and the relationship between housing tenure and the culture of citizenship. It will involve developing new concepts, but it will also involve a clear-sighted application of those new concepts across the full breadth of public policy formation.

Chapter 1

Setting the scene

Setting the scene

Challenging assumptions

This report focuses on the implications for government and for affordable housing providers of falling home ownership levels in England. The aim is to precipitate a strategic discussion on one of the key challenges for the housing sector and for policy makers across the spectrum of Government activities. Though information on falling ownership levels has reached the public domain there has been little analysis or debate. Many commentators and much of the political class is in denial on the issue. For many, the notion that levels of home ownership in England could fall on a sustained basis is fundamentally at odds with their personal experience and runs utterly contrary to their vision of the "natural" development of society. For these individuals the proposition that home ownership levels have fallen, and could continue to do so, requires cogent demonstration. As part of that demonstration, such individuals would almost certainly demand evidence that home ownership had, historically, not always been the dominant tenure.

In the following pages this report will indeed show that home ownership is in decline, that the private rented sector is expanding rapidly, and that this is not a temporary phenomenon. The rate of home ownership has already declined to 1991 levels. A range of socioeconomic fundamentals such as affordability, availability of mortgage finance, demographic trends, and labour market characteristics are all stacked against home ownership. In addition, a serious rise in mortgage arrears and repossessions could exacerbate the trend of falling home ownership. If present trends were to be extrapolated forwards, a simple projection would put home ownership levels at around 60% by 2025: back to the levels of the early 1980s. On the same basis, the PRS would, by as soon as 2020, not only be the second-largest tenure (that point may already have been reached in England), but would include well over 20% of households.

If the level of home ownership in England stayed at its current level of 67.4% until 2025, there would by then be around 17.4 million households in owner-occupation. However, if on current trends the percentage falls to 60% by 2025, then only 15.5 million households would then be in owner-occupation. This means that by the middle of the next decade there would be 1.9 million fewer households in home ownership in England than expected by 2025. Put another way, by 2025 around 1.9 million households would be in other forms of tenure – most likely the PRS. Such projections should, of course, be treated with a measure of caution

The report will also examine the history of tenure change in England, showing that

home ownership has not always been dominant, and that its rise was the result of specific historical factors that persisted over significant periods. The report will also show that falling home ownership levels are not simply a peculiarity of the UK, but that falls can be observed in a number of developed housing markets within and outside Europe.

A decline in home ownership has implications for government almost across the board. There are implications for housing policy, for the economy and for taxation. Welfare and service provision could be crucially affected. Successive governments have relied on what appeared to be a justified belief that improving individual access to housing equity as a personal asset would make individuals able to fund a range of services and facilities, from pensions to community care, in a way that the original initiators of the welfare state had never envisaged. An emerging stream of golden eggs would, apparently, allow government to extol the virtues of personal responsibility and to progressively step back in terms of financial involvement in provision for all but a marginalised underclass. Such an approach must now be re-examined.

Affordable housing providers have found themselves increasingly enmeshed in such "asset-based" provision also. For over 20 years housing associations in particular have seen low-cost home ownership as a worthy aim in terms of offering those on lower incomes a "stake" in society. In addition, profits from open-market sales to aspiring home owners have provided a subsidy towards the development of homes within an increasingly residualised social rented sector. Again, such practices must now be re-evaluated. In the future LCHO is likely to be seen as a way of meeting the needs of particular sub-groups such as key workers, rather than as an engine in promoting higher levels of home ownership.

At a human level, the emerging picture of falling home ownership is a disturbing one. It charts a progressive failure of society to meet aspirations to property ownership. It also highlights an intergenerational fissure in society between an older cohort of households, firmly attached to home ownership and enjoying the benefits of substantial housing equity, and a younger cohort denied access to those benefits and struggling toaccess a range of services and support mechanisms in the absence of adequate state provision. For those with an interest in fairness and social cohesion it is a call to action, although that action may be focused around dealing with the adverse consequences of falling home ownership rather than reversing the trend itself.

This is not simply a gloom and doom report offering only doubt and despair. It does attempt to chart a way forward for government and for affordable housing providers. That is not to say that cherished aspirations will not have to be sacrificed and over-

optimistic ambition trimmed. Nevertheless, at any time of change opportunities do exist to pursue worthy social objectives, even if on a more modest scale than originally envisaged. The report aims to initiate a positive debate among policy planners, politicians and affordable housing developers that will lead to the development of new strategies for the furtherance of social objectives and, within housing policy itself, for the maximisation of the opportunities that will exist to provide adequate levels of affordable housing in what could prove a more challenging and less secure environment for an increasing proportion of our citizens.

The report focuses principally on England, and data will usually refer to England. Nevertheless, UK data, or data for England and Wales, will be used where data for England alone does not exist, or where it is necessary for comparison or analysis and is not misleading. The scope of data will generally be indicated.

The present landscape of home ownership

An analysis of change can helpfully be built on an understanding of the status quo. The above remarks notwithstanding, home ownership is currently by far the dominant tenure in England and in the rest of the UK, although the picture is not entirely uniform within England, or across the UK. The *English Housing Survey Headline Report 2009-10* appeared in March 2011, and showed a further drop in home ownership levels since a year earlier, in both numerical and percentage terms, from 14.621 million (67.9%) to 14.525 million (67.4%).

Figure 1: Tenure characteristics of households in England

	Owner-occupiers	All social renters	Private renters
Number ('000)	14,525	3,675	3,355
Percentage (%)	67.4	17.0	15.6

Source: *English Housing Survey Headline Report 2009-10*

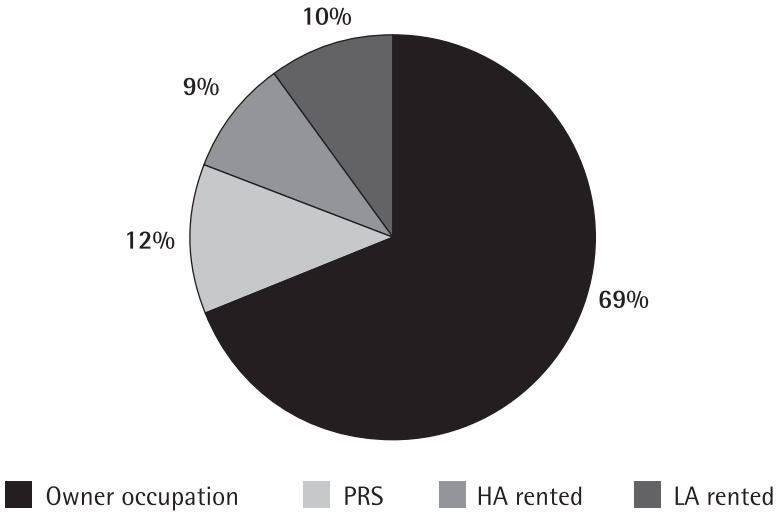
Within England itself, the picture varies significantly. London has a relatively low level of home ownership, at 52.9%, with 25.5% of households renting from social landlords, but a very high – and rising – percentage of private renters, at 21.5%.[1] London has been widely recognised as possessing a housing market that is distinct from the rest of England. Average house prices are more than 50% higher than for England as a whole.[2]

1 Department for Communities & Local Government *English Housing Survey 2008/09*
2 DCLG house price data (www.clg.gov.uk)

It is a more volatile market also; prices fell faster in London during 2008/09, but rose faster in 2010 when compared with England as a whole.[3] London is believed to be a more international market too, with overseas residents and investors driving prices in certain sub-markets. The South East has 72.7% of households in home ownership, but only 14.3% in the private rented sector, although this just outstrips the social rented sector, which caters for 13% of households. By contrast, the North East has lower owner-occupation levels, at 66.7%, but an enlarged social rented sector, at 23.3%.[4]

In terms of the UK, the overall picture remains similar to that of England (not surprisingly, given that over 80% of households are situated in England).

Figure 2: Housing tenure in the UK



Source: DCLG statistics for 2010

Between the countries of the UK there is some variation; Wales has 70% home ownership, Northern Ireland 69%, and Scotland 65% with a relatively large social rented sector.[5]

3 DCLG house price index (www.clg.gov.uk)
4 Ibid
5 DCLG housing statistics

In spite of a downward trend in 2010, the average house price in the UK remained at £162,657 in February 2011 – a drop of 2.8% over the previous 12 months. Prices in England are around 4% higher. Wide regional variations remain; in London the average price was £250,720, compared with £125,730 in Yorkshire & Humber.[6]

A significant proportion of properties in home ownership found their way into the sector via the Right to Buy (RTB) scheme introduced in 1981, although sales from local authorities to sitting tenants were an established fact well before that. The majority of sales took place early on under the scheme; nevertheless, even since 2000 around 348,000 properties were sold into owner-occupation in England alone.[7] The scheme has led to a total of 1.9 million homes being acquired for home ownership in England, and a total of about 2.5 million across the UK as a whole.

The scheme now appears to have run its course, with only 2,640 sales recorded for England in 2009/10. The reasons for the decline in RTB sales include a lowering of the discounts offered to tenants, and lengthened qualifying periods before eligibility for purchase. In addition, the best stock has now been sold and those tenants best able to buy have done so. The residualisation of social housing (caused in part by RTB) has led to a situation where fewer tenants are likely to exercise the option in the future.[8]

The RTB is being phased out in Scotland under the Housing Scotland Act 2010, but the UK Coalition government remains firmly committed to its existence (see below).[9]

A far smaller number of homes are in owner-occupation as a result of low-cost home ownership schemes – principally shared ownership, operated mainly by housing associations. The National Housing Federation (NHF) has estimated that some 170,000 homes have been provided for shared ownership since 1979, with around 44,000 staircasing to full ownership.[10] With average annual income of shared-ownership purchasers across England at about £24,500 in 2009/10, shared ownership continues to appeal to those lower in the income scale, and the average initial share purchased is 36% of the property value.[11] By contrast, the average purchaser for full home ownership in England in the fourth quarter of 2010 had an annual income of £42,000.[12]

6 Halifax House Price Index (www.lloydsbankinggroup.com)
7 DCLG housing statistics
8 King, P *Housing Policy Transformed: The Right to Buy & the Desire to Own* (University of Bristol, 2010)
9 Heywood, A "Scottish Government's Right to Buy Plan Could Signal the End of this Controversial Policy" in *Social Housing*, February 2011
10 National Housing Federation *Shared Ownership Facts & Figures* (2010)
11 Homes & Communities Agency *Data Compendium: A Collection of Published Data about the Intermediate Market* (2010)
12 Council of Mortgage Lenders statistics

Housing associations have an involvement in all tenures. As well as managing more social rented housing than English local authorities, and operating in the LCHO area, some HAs also manage a few market rental properties while others have been active in the government-sponsored mortgage-to-rent scheme aimed at home owners in financial difficulties.

Given the political salience of home ownership and the widely accepted self-image of the UK as a property-owning democracy, one might be tempted to believe that the UK has rates of home ownership that are exceptionally high. The true picture, however, is rather different.

As can be seen in figure 3, the UK is in fact very close to the average for the EU27 and England alone is actually slightly below it.

UK home ownership levels may be unspectacular in international terms, but the popular aspiration to own remains strong and is firmly entwined in political rhetoric and at the level of headline policy.

In 2007, survey research for the Council of Mortgage Lenders (CML) indicated that the aspiration among adults to own their home in 10 years' time had actually increased from 80% to 84% over three years, with 50% (up from 40%) of under-25 adults aspiring to own within two years – although the CML commented that the latter figure sat "oddly" with the decline in actual home ownership levels for that group over the same period.[13] Two years later, however, a 2009 YouGov survey suggested that only 37% of 18- to 24-year-olds believed that home ownership was right for them, although 70% of all respondents still saw it as ideal for them – 2% lower than before the recession.[14]

Owner-occupiers are more likely to be satisfied with their home, with 89.4% expressing satisfaction. The PRS ranked second, with satisfaction at 84.8%, and social renting scored 79%. Owner-occupation not only meets an abstract aspiration, but also appears to deliver greater satisfaction in terms of the home it provides.[15]

For the main political parties, 2010 as an election year produced the usual crop of assurances about the political commitment to extend home ownership as an overriding aim. The Conservative manifesto stated: "We will provide shared ownership schemes and help social tenants and others to own or part-own their home."[16] Under the head-

13 BMRB *Omnibus Survey 2007* (Council of Mortgage Lenders, 2007) (www.cml.org.uk)
14 Chartered Institute of Housing *YouGov Survey 2009* (2010) (www.cih.org)
15 *English Household Survey Household Report 2008/09* (DCLG, 2010) (www.communities.gov.uk)
16 Conservative Party manifesto, 2010 (www.conservatives.com)

Figure 3: Owner-occupation rates for EU27 and selected countries

	Latest year data available	Owner-occupation rate (%)
Austria	2009	56.2
Belgium	2007	78.0
Bulgaria	2002	96.5
Cyprus	2006	68.0
Czech Republic	2001	47.0
Denmark	2009	54.0
Estonia	2008	96.0
Finland	2008	59.0
France	2007	57.4
Germany	2002	43.2
Greece	2009	80.0
Hungary	2003	92.0
Ireland	2009	74.5
Italy	2002	80.0
Latvia	2007	87.0
Lithuania	2008	97.0
Luxembourg	2008	75.0
Malta	2006	75.0
Netherlands	2008	57.2
Poland	2004	75.0
Portugal	2006	76.0
Romania	2009	97.7
Slovakia	2008	88.0
Slovenia	2006	82.0
Spain	2008	85.0
Sweden	2008	68.0
UK	2008/09	69.0
EU27 weighted average		68.2
Iceland	2008	80-85
Norway	2001	76.7
Russia	2003	63.8
Turkey	2000	68.0
USA	2009	57.6

Sources: European Mortgage Federation *Hypo Stat 2009*; DCLG *English Housing Survey 2008-09*

line "Labour Gives Up Its Pledge to Increase Home Ownership", a pre-election news story had the then shadow housing minister Grant Shapps berating Labour for presiding over a fall in home ownership: "Labour must be held to account for breaking their home ownership pledge from the last election."[17]

For its part, Labour unequivocally reaffirmed its commitment to home ownership at its first post-election conference, in a speech by Caroline Flint:

Let us remain the party of aspiration, of home ownership for the many, not the few.... Today there are 1 million more home owners than a decade ago, thanks to Labour ... and we must remind the British people that we offer ... more paths to home ownership. [18]

The Liberal Democrats used their manifesto to warn, "Liberal Democrats believe house prices shouldn't be allowed to spiral out of control because it stops young people from getting onto the housing ladder".[19] The Liberal Democrats have also announced a review of housing policy, which may in fact take a more nuanced view on home ownership than do the two bigger parties. However, whether this would practically influence the Coalition is more doubtful.[20]

At the level of headline policy, the Coalition has placed itself firmly in the camp of extending home ownership. In his "Age of Aspiration" speech of 8 June 2010, housing minister Grant Shapps committed himself to "work night and day" to assist the 1.4 million households who cannot currently access home ownership. The minister has also several times stated his view that house prices should fall against earnings for a protracted period in order to improve affordability at the margin. As if to underline the perceived sensitivity of home ownership as an issue, in September he emphatically denied that he had any intention of reviewing the continuation of the RTB in the wake of the decision of the Scottish government to phase it out in order to preserve affordable housing for rent.[21]

The message from the First-Time Buyer Summit in February 2011 appears to be that further innovative measures to tip the balance of affordability will be considered by the Coalition. The 2011 Budget announced a new equity loan scheme, with 20% equity loans to be provided jointly by government and developers. The scheme will cost some

17 Conservative news release, 23 April 2010 (www.conservatives.com)
18 Speech by Caroline Flint to Labour annual conference in 2010 (www.labour.org.uk)
19 Liberal Democrat manifesto, 2010 (www.libdems.org.uk/housing/aspx)
20 "Lib Dems to Overhaul Housing Policy" in *Inside Housing*, 27 September 2010
21 Heywood, op cit

£250 million and it is hoped will assist 10,000 first-time buyers. The scheme is in fact a rather less generous version of the former HomeBuy Direct scheme introduced by the last government in 2008.[22]

The Coalition also has a continued commitment to shared ownership (and the subsidy from open-market sales) in the affordable development programme administered by the HCA. The viability of this approach, and of the various commitments outlined above, will be examined in more detail in a later chapter of this report.

Expansion or at least maintenance of home ownership levels remains key to the structure and expected outcomes of a broad range of government policies. "Asset-based welfare" has been a goal of successive governments for over two decades.[23] The concept that increased ownership of residential property offers the opportunity for households to meet an increasing share of their educational, welfare and other needs has gained ground even on the left, where traditional approaches based on a "tax and spend" model have tended to keep more support.[24] An increasing range of services traditionally offered through central or local government are now at least partly (although sometimes indirectly or implicitly) funded from housing equity.

Examples include:

- care in the community for the elderly;
- financial provision in lieu of a pension for those disenchanted with, or without access to, private or company pension schemes;
- access to justice under the legal aid scheme; and
- access to higher education under the new arrangements from 2012 – arguably, these implicitly assume that in many cases housing equity from parents, or from students themselves in later life, will fund fee and maintenance costs.

This is not just a UK phenomenon. As a recent European study put it: "... there has been a tendency to scale back on universal public services funded via taxation towards placing greater responsibility and choice onto individual consumers".[25]

22 "Eric Pickles: Radical Changes in Housing and Planning Will Drive Local Growth", DCLG press release, 23 March 2011 (www.communities.gov.uk)
23 See: Sherraden, M *From the Social Welfare State to the Social Investment State* (National Housing Institute, 2003) (www.nhi.org)
24 Paxton, W (ed) *Equal Shares? – Building a Progressive & Coherent Asset-based Welfare Policy* (IPPR, 2003)
25 Quilgars, D and Jones, A "A Safety Net of Last Resort? Findings from a European Study" in Smith, S and Searle, B *The Economics of Housing* (Blackwell, 2010)

Home ownership is an important prop for the taxation system also. Annual UK stamp duty land tax revenues increased from £1.07 billion in 19888/89 to £6.68 billion in 2007/08. Most transactions involve owner-occupied dwellings.[26]

The relationship between home ownership, national economic performance and economic policy is a complex one. There are well-attested links between the "feel-good factor" created by rising levels of housing equity and consumer spending fuelled by withdrawal of that equity. To that extent, an economy based on domestic consumption can be stimulated by home ownership at a time of rising prices; some have even characterised housing equity as an "ATM".[27] Spending on construction generates significant economic growth through the "multiplier" effect. On the other hand, equity withdrawal and personal perceptions of significant housing wealth are also believed to cut the savings rate.[28] It is often alleged that investment in housing over other asset classes distorts economic growth. The role of housing market volatility in exacerbating economic downturns and slowing growth overall has also been widely discussed.

The above does not constitute a full analysis of the relationship between home ownership and government policy. Nevertheless, it does point up the need for a discussion of the impact of falling home ownership levels (and house prices?) across the range of government policies, and this will be undertaken in chapter 5.

Overall, this chapter has painted a picture of a home ownership culture firmly intertwined with popular aspiration and political rhetoric. It also shows that, in reality, home ownership levels in the UK are not exceptionally high relative to other developed states, although it is firmly the majority tenure. Home ownership impacts on a range of government policies also. That this picture appears solid and timeless is perhaps a product of our collective and individual desire for stability and permanence. In fact, as succeeding chapters will show, the present level of home ownership has arisen out of a developing interaction of social, economic and political factors. It is also not a given that current ownership levels will be maintained over time; future levels will depend on the combination of social, economic and political trends pertaining at the time.

26 Wilcox, S *UK Housing Review 2008/09* (Chartered Institute of Housing/Building Societies Association, 2008) (www.ukhousingreview.org.uk)
27 Klyuev, V and Mills, P "Is Housing Wealth an ATM? International Trends" in Smith, S and Searle, B (eds) *The Blackwell Companion to the Economics of Housing: The Housing Wealth of Nations* (Blackwell, 2010)
28 Ibid

Chapter 2

The rise of home ownership in the 20th century

The rise of home ownership in the 20th century

At first sight, a chapter charting the rise of home ownership during the 20th century may seem like an unwarranted historical digression. We are where we are, as the saying goes. In fact this digression is justified on several counts:

- It provides the opportunity to chart the rise of owner-occupation in relation to government policy and rhetoric. It demonstrates the role of government in maintaining the broader market environment in which house building and purchase take place. Government also determines the fiscal environment, and through policy intervention it can stimulate or hinder the development of any particular tenure.

- It provides the opportunity to challenge certain unspoken and hence unchallenged orthodoxies, including the proposition that home ownership is somehow a natural tenure that has always been prominent, and that promotion of increased home ownership has always been a key component of public housing policy.

- It reminds us that many of the recent "innovations" in government policy – notably in the field of mortgage finance – as well as the challenges they are designed to tackle, have been tried in the past with varied results.

Overall picture

Overall, the picture of tenure change across the century is of a steep rise in home ownership from 23% of tenures in 1918 to just over 70% in 2000. Over the same period the PRS declined sharply from 76% to around 10%, though in absolute terms it started to grow again during the last decade of the century. The social rented sector grew from around 1% in 1918 to peak at around 32% in 1981 after which it declined to around 19.5% in 2000. The historical data on tenure must be viewed with some caution. The data sources have changed over time and the accuracy of the figures becomes more problematic as one goes further back. 1939 has been suggested as the first year for which genuinely accurate statistical data is available as opposed to inferences and computations of varying reliability. Pre-1914 there is very little information at all at a national level.

Pre-First World War

The picture before 1914 is distinctly sketchy. It has been estimated that home ownership

in 1914 stood at around 10%-15%,[29] but this appears low when compared with the estimate for 1918. What does seem certain is that the 19th century did not produce the kind of tenure transformation seen in the 20th, in spite of huge economic and social change, including the transformation of a predominantly rural society in 1800 into an urban one a century later.

One estimate of owner-occupation uses information on the householder franchise for 1831 – that is, immediately before the Great Reform Act of 1832, which extended and reformed that franchise. This suggests that between 13% and 22% of households could have been owner-occupiers in 1831, but, again, this estimate should be treated with caution.[30] Private renting was overwhelmingly the predominant tenure until the First World War. It does not appear that home ownership was seen as significant in housing policy terms prior to 1914. Most property was built for sale for renting.

Nevertheless, there were legislative developments that laid the foundations for later advances in home ownership, although that was not the intention. The Public Health Act 1875 began the process of establishing minimum standards for new dwellings, while the Small Dwellings Acquisition Act 1899 first permitted the municipal provision of mortgages, although little was in fact lent until 1918.[31] By 1914 tax relief on mortgage interest was in existence, although as a by-product of broader taxation policy rather than as an incentive to borrow to buy a home. It was in fact largely cancelled out by taxation of imputed rental values under Schedule A, and did not gain full significance until the termination of the latter in 1963 (see below). Before 1939 a married man on average earnings would not have paid income tax.[32]

The 19th century was also the period of the establishment of the building society movement. Initially operating as "terminating societies", building societies functioned as temporary clubs to fund building projects that would not necessarily have involved owner-occupation. After the Building Societies Act 1836 the position changed, and the establishment of "permanent" societies proceeded apace. Successive acts of parliament, notably those of 1874 and 1894, laid further foundations by circumscribing behaviour that had led to numerous scandals (notably the failure of the Liberator Permanent Building & Investment Society in 1892 as a result of dubious dealings in relation to a linked property company) through laying the legal basis for a regulatory regime that was to develop further as the movement grew.

29 Pawley, M Home Ownership (Architecture Press, 1978)
30 Ibid
31 Merrett, S with Gray, F *Owner Occupation in Britain* (Routledge Kegan Paul, 1982)
32 Ibid

In 1910 there were 1,723 authorised societies in existence. It should be remembered that the overall scale of building society activity remained modest when compared with the huge number of homes constructed in the period. The total of annual advances totalled only £7 million as late as 1918, while total mortgage assets in 1910 totalled £60 million, which had risen to £69 million in 1920.[33] This, combined with the fact that building societies did not lend only for owner-occupation, goes some way towards explaining why the rise of the movement coexisted with largely static levels of owner-occupation relative to other tenures.

Homes for heroes: the inter-war years

The First World War established a new backdrop to housing policy when peace was re-established in late 1918:

- There had been an interruption in the normal levels of residential construction.
- Some stock had been destroyed and maintenance had not kept pace.
- Rent controls had been imposed following rent strikes and unrest in Glasgow and elsewhere, a factor that was to have a long-term negative impact on investment in the PRS.
- The privations of war both at home and at the front had led to a less compliant attitude to prevailing social conditions and housing conditions, in particular among large sections of the population. "Homes for Heroes" was not just an aspirational slogan; it was perceived as a political necessity by prime minister Lloyd George. His coalition government pledged itself to construct half a million new homes. As the 1919 election manifesto put it:

  One of the first tasks of government will be to deal on broad and comprehensive lines with the housing of the people, which during the War has fallen so sadly into arrears [sic], and upon which the well-being of the nation so largely depends.[34]

The government did not set out with a home ownership agenda. There was no dissension from the view of Christopher Addison, the minister of health (later replaced by Sir Alfred Mond), that the majority of homes would continue to be rented, with new homes being provided by speculative builders and local authorities.[35]

33 Building Societies Association statistics (www.bsa.org.uk)
34 Conservative Party manifesto, 1919 (www.conservativemanifesto.com)
35 Taylor, AJP *English History 1914-45* (Oxford, 1965)

Local authorities benefited from the Housing & Town Planning Act 1919, which made provision for subsidies for building by authorities; eventually over 170,000 homes were constructed under the act. By 1921-22 some 87,000 local authority homes had been constructed, but this figure then fell sharply as a result of spending cutbacks in the face of economic downturn, leaving government more dependent on private builders to fulfil its commitments.[36] Nevertheless, local authority output averaged about 50,000 homes a year over the inter-war period, though with peaks and troughs.[37]

The Coalition government saw speculative builders as a key part of its strategy from early on. In 1920 the "betterment levy" on land values was abolished. Even in the period to 1922-23, around 26,000 homes were completed, the majority sold for owner-occupation.[38] Building society annual mortgage advances rose from £7 million in 1918 to £25 million in 1920.[39]

By 1923, the cutbacks in local authority building meant that private building was seen as the major driver of stock increase, and the Housing Act 1923 (the "Chamberlain Act") promoted speculative building of small homes for rent or sale, through a combination of grants and extension of the provisions allowing local authorities to grant mortgages. In addition, local authorities were empowered to offer guarantees on mortgage advances by building societies. It has been estimated that around 420,000 homes were constructed under the act, with the large majority being for owner-occupation, although some new stock was acquired by the PRS.

Although government in the immediate post-war period did not see owner-occupation as the housing priority, politicians were becoming aware of its potential role as a means to ensure social stability and cohesion. Writing in The Times in 1920, Neville Chamberlain put it bluntly: "Every spadeful of manure dug in, every fruit tree planted" converted potential revolutionaries into citizens.[40]

The Labour government of 1924 had municipal housing as its priority, as evidenced by John Wheatley's Housing Act 1924. Nevertheless, it left the measures in the 1923 act intact. The incoming Conservative government of Bonar Law maintained the primacy of building for sale, which in practice meant building for owner-occupation in the main. The Land Registration Act 1925 simplified conveyancing and registration of title,

36 Merrett, op cit
37 Malpass, P and Murie, *A Housing Policy & Practice* (Macmillan, 1999)
38 Ibid
39 Pawley, op cit
40 Quoted in: Feiling, K *The Life of Neville Chamberlain* (Macmillan, 1946)

another important component of popular home ownership. Local authority subsidies on new-build were reduced after 1927 (and during the depression), leading to a position where the local authority share of new-build fell from 46% in 1927/28 to 16% in 1934-35. Overall, building levels rose from around 70,000 in 1923/24 to peak at 300,000 in 1933/34, before dropping back to 150,000 in 1939/40. The large majority of these homes were sold into owner-occupation. Private-sector building was above 100,000 dwellings a year for every year after 1925 and above 250,000 a year from 1934 to 1938.[41]

The 1929-31 Labour government returned to the public rhetoric of rented housing for the working classes. The Labour manifesto of 1929 was clear:

The Labour Party is the Party of the Working Home. In 1924, it revived the policy of building houses to be let not sold. It will return to that policy until there are enough houses let at working class rents.[42]

This policy was reiterated at the (for Labour) unsuccessful election of 1935:

It will go ahead with the provision of healthy homes for the people at reasonable rents, until the needs of the nation are fully met.

This policy was supported by a commitment to the nationalisation of land.[43] In practice, however, the party found itself compelled to make spending cuts in the teeth of the depression, while it left intact the previous Conservative measures that had stimulated home ownership. While Labour public rhetoric was couched in terms of homes for rent, discussion was in fact more nuanced. The *Eleventh Annual Report of the Ministry of Health 1929-30* under minister Arthur Greenwood was more positive about the benefits of home ownership, at least for the middle classes:

Many local authority and social workers have borne testimony to the advantage of having a considerable number of owner-occupiers among the working-class population ... and have found the care and attention devoted to the houses owned by their occupiers to have set an example which was ultimately followed by their rent-paying neighbours. However, it is generally the case that the needs of the working class, particularly of the lower paid members, cannot be met if they are required to purchase houses.[44]

41 Malpass & Murie, op cit (1999)
42 Labour Party manifesto, 1929 (www.labourparty.org.uk)
43 Labour Party election manifesto, 1935 (www.labourparty.org.uk)
44 Quoted in Merrett, op cit

In fact it appears that while working-class purchasers were few and far between in the 1920s, the 1930s saw a significant number of skilled and semi-skilled workers as purchasers, aided by rising incomes, falling house prices, and readily available high-LTV building society loans on new homes. It has been estimated that up to 20% of purchasers were wage earners in this period, with the Abbey Road Building Society offering 30%-50% of advances to wage earners from 1930 to 1939.[45] Nevertheless, home ownership remained unequally distributed across social classes at this stage; in 1938/39 a sample of civil servants, local government officials and teachers suggested that up to 65% were home owners.[46]

By 1939 the overall transformation in the balance of tenures was impressive. It has been estimated that between 1918 and 1939 tenure balance changed as shown in figure 4.

Figure 4: Inter-war change in England tenure balance

Tenure type	1918	1939
Owner-occupiers	23%	32% (3.5m)
Renting from local authority	1%	10% (1.09m)
Private renters	76%	58% (6.46m)

Source: DCLG statistics

While the PRS saw little numerical decline, it shrank dramatically as a proportion of the stock, principally due to the increase in owner-occupation, but also because of the increase in local authority housing.[47] Further analysis suggests that this was due to the selling of PRS properties into home ownership, often to sitting tenants, as well as to the owner-occupied sector gaining the lion's share of new-build homes during the period.

Several observations can be made about the dramatic rise in home ownership during the period. The role of government was clearly important in providing incentives for private development and in assisting significant numbers of buyers to access mortgage

45 Speight, G "Who Bought the Inter-war Semi? The Socio-economic Characteristics of New House Buyers in the 1930s" in *Economic & Social History* no 3, December 2000
46 Merrett, op cit
47 Ibid

finance. Removing the taxation of increased land values and improving the transfer of title were also significant measures.

Nevertheless, while in this period successive Conservative and Labour governments consolidated and/or extended measures that served to promote owner-occupation, they did so without a clear strategy of boosting its relative importance as a tenure (at least until well into the 1930s), and many of the measures to support private builders were thought at the time likely to increase the supply of privately rented dwellings. Indeed, perhaps the most significant measure by government that limited the supply of good-quality private rented properties, and created a demand for owner-occupation, was the retention of wartime rent controls. These ensured that private landlords would not be able to achieve a sufficient rate of return to justify adequate investment in new stock, or in repairs and improvements – a situation that was to persist until the late 1980s. This will not be the last instance in this report of government measures achieving results contrary to those desired or predicted.

Given the vicissitudes of government housing policy, it is not surprising that other socioeconomic and market factors also played an important part in the rise of home ownership:

- Real incomes increased substantially over the inter-war period by around 30%, making home ownership more affordable.

- Household formation among younger households was high during the period.

- House prices fell significantly during the 1930s, which was attributable in part to falling labour and other costs which improved affordability. It perhaps also helps account for a lack of references to owner-occupied housing as a sound investment until well into the period after World War Two.

A key factor in the rise of home ownership levels was the availability of mortgage finance. Local authorities alone were providing 1,400-5,000 mortgage loans each year from 1923 until 1939. Total mortgage assets held by building societies increased from £69 million in 1919 to £316 million 10 years later, and reached £678 million by 1940.[48] A notable feature of the period is the stratagems for increasing LTV ratios by local authority guarantees in the 1920s, and via the "builders' pool" in the 1930s. The latter involved a builder depositing funds with associated building societies to protect the

48 Building Societies Association

lenders against default on loans above 75% LTV.

Although the system was prone to scandal and had side-effects such as an increase in jerry building, it did enable building societies to commonly offer terms of up to 25 years, and to frequently accept deposits of 5% or less including legal fees on smaller new-build properties. Overall, the period is testament to the importance of the supply of mortgage finance for the accessibility of home ownership.

War and reconstruction: 1939-51

The Second World War saw minimal construction and extensive damage to dwellings through bombing, flying bombs and rocket attacks. In any case, little or no prior preparation had been made for the effects of bombing.[49] In addition, repairs and maintenance needs were subordinated to the war effort.

The Labour government elected in 1945 saw the prime housing need as replacing homes damaged or destroyed in the war, and within that the priority need was perceived as being for local authority housing for rent. The new government took over some of the thinking that had been generated under Churchill's wartime government. An example was the prefabricated housing programme that Churchill had boasted would be pursued with the determination that "went into the invasion of Africa". The programme was launched but proved more expensive than anticipated and was curtailed due to the balance of payments crisis of 1947. By 1948 around 160,000 had been built, at a cost of £216 million.

In spite of the priority given to local authority housing, speculative builders, by now building almost entirely for owner-occupation, resumed activity to a greater extent than might have been anticipated. Private building completions in England during the period 1946 to 1951 totalled around 167,040.[50] However, this was not even equivalent to one good year's private construction during the 1930s.[51] By contrast, local authority completions totalled 677,190 over the same period.[52]

Government did exercise significant influence; the Town & Country Planning Act 1947, as well as instituting a planning regime that has formed the basis for the post-war period, also introduced punitive taxation of land values, which probably depressed speculative building activity. The continuing commitment of Labour to

49 Taylor, op cit
50 DCLG statistics
51 Pawley, op cit
52 DCLG statistics

land nationalisation over this period may also have deterred some builders and potential owners. Conversely, the decision to maintain wartime rent controls indefinitely almost certainly created demand for owner-occupation by further depressing the PRS. Although the result in terms of higher rates of owner-occupation did not become evident until after 1951, the number of home owners did increase.

Overall, private completions made up a minority of total completions during the 1940s, in an emphatic reversal of the position a decade earlier. Private completions had tailed off to about 20,000 by 1951, compared with 141,000 for the local authority sector.[53] Ironically, total completions averaged 110,000 between 1946 and 1951, a time of unparalleled austerity. By contrast, in 2010 – arguably the last modern pre-austerity year – completions reached only 103,000.[54] Home ownership rates stayed static at 32% between 1939 and 1953.

Again, the lessons of this period are that government action is of real importance in determining access to home ownership. The government did not subsidise speculative building as it had in the aftermath of World War One, and controls imposed on building did not help. The continuing availability of mortgage finance was important in maintaining effective demand; building society assets rose from £678 million in 1940 to £1,060 million in 1950.[55] However, the impact of the broader economic environment, with rationing of key materials and continuing austerity, may well have been the largest factor in limiting growth. In the light of the present climate of economic turbulence and austerity, more detailed study of this period and the relationship of these factors to demand could be worthwhile.

'You've never had it so good': 1951-70

With hindsight, the period to 1970 had the underlying socioeconomic trends that would drive a boom in both home ownership and construction. Real incomes rose by over 50% between 1950 and 1970, accompanied by full employment and almost uninterrupted economic growth. People's jobs were secure; a "job for life" was a reality, and this in itself made home ownership (with its relative illiquidity and high transaction costs) a more practical as well as a more attainable option. The welfare state smoothed out many of the health and other risks that had hitherto caused financial as well as physical insecurity even for middle-class households. One could argue that this was one period during which government could simply have relied on market forces to develop the property-owning democracy. However, that was not

53 Ibid
54 Ibid
55 Building Societies Association

how it looked in 1951. The UK was still in the grip of post-war austerity, the economy seemed fragile and controls of all sorts cut across the activities of industry and commerce.

In spite of Labour winning the popular vote, and increasing its support since the election of 1950, the Conservatives won a majority of seats in 1951 and Churchill resumed the role of prime minister. Harold Macmillan was appointed to the newly renamed Ministry of Housing & Local Government.

In spite of Conservative promises to drastically reduce public expenditure and cut red tape, Macmillan had clear manifesto commitments on housing to fulfil:

Housing is the first of the social services. It is also one of the keys to increased productivity. Work, family life, health and education are all undermined by overcrowded homes. Therefore a Conservative and Unionist government will give housing a priority second only to national defence. Our target remains 300,000 houses a year. There should be no reduction in the number of houses and flats built to let, but more freedom must be given to the private builder. In a property-owning democracy, the more people who own their homes the better.[56]

His strategy was to reduce controls on private building and restore incentives, while maintaining the impetus of local authority construction. The Town & Country Planning Act 1953 repealed the tax on land values imposed in 1947.[57] Production controls were also terminated. With hindsight 1951 can be seen as the beginning of a housing boom that was to last until 1970. Private building starts rose from 20,000 in 1951 to peak at around 250,000 in 1964, almost all for owner-occupation. The Conservatives achieved their 300,000 annual completion target by 1964, their final year in office.[58]

However, the balance shifted away from local authority building, which nevertheless more than doubled the size of their stock between 1951 and 1971.[59] Local authority development levels for England and Wales ranged between 125,000 and 250,000 per year between 1950 and 1970.[60] In 1952 Macmillan moved to permit sales of local authority homes to sitting tenants, or in some circumstances those needing

56 Conservative Party manifesto, 1951 (www.conservative-party.net)
57 *Town & Country Planning Act 1953* (HMSO, 1953)
58 DCLG statistics
59 DCLG, statistics
60 Malpass and Murie, op cit

accommodation.[61] However, annual sales never exceeded 3,000 units up to 1964.

Mortgage finance was again the subject of public initiatives. The number of local authority mortgages increased from 21,000 in 1951/52 to 77,000 in 1964.[62] Under Circular 45/55, councils were to guarantee excess advances by building societies to enable loans of up to 95% to be offered on post-1918 homes. Some 10,000 guarantees a year were given up to 1960, after which the number declined. The House Purchase & Housing Act 1959 enabled the Exchequer to make loans to building societies to fund 95% loans on smaller houses; 84,000 units were funded before the scheme was suspended in 1960.[63] Total building society mortgage assets increased from £1.06 billion in 1950 to £2.64 billion in 1960 and to £8.75 billion by 1970.[64]

A key fiscal measure from this period, and one which symbolised the rising political salience of home ownership, was the decision in 1963 to abolish taxation on the rental value of owner-occupied housing under Schedule A. Until this measure, interest on mortgage loans had been subject to tax relief, but this was then clawed back under Schedule A taxation. Tax relief was, of course, left in place, thus placing owner-occupiers in a privileged position relative to either private or social renters. Clearly, this was a further blow to the prospects for the declining PRS.[65]

As has already been implied, the change to a Labour government in 1964 did not reverse the trend towards home ownership or the favourable attitude of policy makers towards it. In spite of the 1967 devaluation crisis, the subsequent economic downturn, and government spending cuts, the commitment to expand home ownership remained. Shortly after taking office in 1964, the National House-Builders Registration Council or NHBRC (later the National House-Building Council or NHBC) was reconstituted to provide better new-home registration and to extend new-build insurance cover for owners. Richard Crossman's 1965 housing white paper showed the extent of Labour's conversion to the property-owning democracy ideal:

But once the country has overcome its huge social problem of slumdom and obsolescence, and met the need of the great cities ... the programme of subsidised council housing should decrease. The expansion of building for owner-occupation on the other hand is normal; it reflects a long-term social advance which should gradually pervade every region.[66]

61 Ministry of Health & Local Government *Circular 64/52* (HMSO, 1952)
62 Merrett, op cit
63 Ibid
64 Building Societies Association
65 Merrett, op cit
66 Ministry of Health & Local Government *The Housing Programme 1965-70*, white paper (HMSO, 1965)

In 1967 the government intervened with the Housing Subsidies Act 1967, which subsidised the mortgage interest rate for low-income households. Around 25,000 a year benefited from them in the early years: a significant measure in LCHO terms by today's less ambitious standards.[67]

While the level of owner-occupation rose from 32% to 51% between 1953 and 1971, with stock numbers virtually doubling, government was unable to reverse the on-going decline of the PRS, which continued to suffer from lack of investment. This was exacerbated by high security of tenure for tenants and continuing controls over rents, in spite of a Conservative attempt to ease them in 1957 – a limited effort largely negated by Labour's Rent Act of 1965. Between 1953 and 1971 the PRS lost about 3.2 million dwellings, nearly half its stock, largely through direct sale to the owner-occupied sector, although slum clearance will have been a contributing factor.[68]

While the period 1951-70 may not have been the "golden age" of home ownership, it did continue the trend towards home ownership established in the inter-war years. Again, government was active in deregulation early on, and subsequently in facilitating the supply of mortgage finance, particularly at the margins. The symbolic and practical effects of abolishing the taxation of rental values, while leaving tax relief on mortgage interest in place, were of major significance.

The scale of such direct involvement compares favourably with the level of LCHO activity of the past two decades if the effects of RTB are subtracted. However, the underlying factors of rising incomes, economic growth, social stability, comprehensive welfare provision and full, secure employment were of paramount importance in enabling the growth of owner-occupation during the period. Government's action undoubtedly helped the spread of owner-occupation to those on lower incomes and thus facilitated social cohesion. Nevertheless, compared with the overall rise in home ownership the effects were marginal, and short of prohibiting home ownership or curtailing private building it is difficult to see what action government might have taken that would have led to a fall rather than a substantial rise in home ownership over this period.

Signs of trouble: the 1970s

At the beginning of the 1970s, home ownership was still seen as the tenure of choice and the growth area of the future. As Julian Amery, the Conservative minister of

67 For the aims of the scheme, see: Ministry of Health & Local Government *Help Towards Home Ownership*, white paper (HMSO, 1966)
68 DCLG housing statistics

housing and construction, put it in 1971:

What better to invest in than a home which will certainly appreciate in value and will, at the same time, give a man a feeling that there is a bit of England which is his family's own ... It will be endorsed as the primary aim of those who today cannot, or think they cannot, achieve it.[69]

It is perhaps ironic that at a point when even ministers endorsed the notion that a home was virtually a risk-free appreciating asset, the first serious fall in prices in real terms occurred. The 1970s saw the optimism of the post-war decades fade as sustained economic growth gave way to "stagflation" (rapidly rising prices combined with economic stagnation) and the UK government had to seek assistance from the IMF.

It was a period of serious labour unrest too, with a miners' strike bringing down the Heath government in 1974, and strikes by local government workers fatally undermining the political credibility of the Labour government in 1978, and contributing to the election of the Thatcher government the following year. As Alan Holmans has shown, in the period of hyper-inflation that followed the 1973 oil crisis, house prices rose in cash terms by 31% between 1973 and 1977, but actually fell in real terms by 32% before beginning to rise again.[70]

Nevertheless, there were some factors at least that worked in favour of increased home ownership, notably an increased rate of household formation due a rise in population among the 15-44 age groups. However, enhanced household formation can be an effect of increased access to housing as well as a spur towards access to housing. It should also not be forgotten that the number of social rented households increased by about 800,000 over the period, as many as did the owner-occupied sector. In relative tenure terms, home ownership increased from 51% to 57.2% between 1971 and 1981.[71]

One single factor accounting for around 150,000 new households in owner-occupation during the 1970s was sales of local authority and new town dwellings: many more than in previous decades. These 150,000 sales during the 1970s represent a major and successful publicly sanctioned intervention to increase home ownership.[72] It is often believed that the RTB introduced mass local authority house sales for the first time

69 Julian Amery, speech to the NHBRC, July 1971
70 Holmans, A *Past & Current Trends in House Prices & Incomes & Access to Home Ownership* (Cambridge, 2001)
71 DCLG housing statistics
72 Balchin, P and Rhoden, M *Housing Policy: An Introduction* (Routledge, 2002)

in 1981; it is salutary to remember that there was a very significant precedent in the previous decade, effectively endorsed by both political parties.

Of interest, but much less significant in terms of overall effect, were various initiatives by government to improve access to mortgage finance for first-time buyers. Between 80% and 95% of mortgage finance was still provided by around 300 building societies at this time, with local authorities, banks and insurance companies providing the balance.

There were three public low-start mortgage schemes launched in the 1970s. In 1972 a scheme was launched by the National Economic Development Office. In 1975 the Department of the Environment and the Building Societies Association launched a joint low-start scheme, and in 1978 the Home Purchase Assistance & Housing Corporation Guarantee Act facilitated a further scheme. The number of local authority mortgages declined after 1975, but 20,000 were still offered in 1980.[73] Overall, the continuing impact of mortgage interest tax relief was far more significant in incentivising and enabling access to home ownership than all the mortgage initiatives combined.

73 Merrett, op cit

Chapter 3

Recent trends – the 1980s and beyond

Recent trends – the 1980s and beyond

The general election of 1979, in which a Conservative government under Margaret Thatcher was returned, initiated profound shifts in the direction of housing policy, which from 1983 were in essence accepted by Labour as well as the government. That consensus has, essentially, held until the present. This chapter examines those recent trends in policy and tenure change that have emerged, and which are relevant to the consideration of the future trajectory of home ownership and possible policy responses.

Perhaps the most noticeable change during the Conservative years (1979-97) was the dramatic decline in direct public expenditure on housing in real terms and as a proportion of overall public expenditure. In 1980 direct housing expenditure was £13.1 billion. By 1996 it had declined to £4.9 billion (in 1998/99 prices). As a percentage of government expenditure, housing expenditure declined from 5.6% in 1980/81[74] to 1.3% in 1999/2000[75] and had only recovered to 2.7% by 2008/09.[76]

During the period 1980-96 local authority rents rose by a multiple of more than five while male earnings rose by a multiple of less than three.[77] Since 1997 local authority rents have continued to rise ahead of earnings, while the HA rent formula has ensured that HA rents have risen significantly although less rapidly.[78]

The use of private finance for social and associated stock transfer of homes from local authorities to housing associations was initiated by the Conservatives but continued by the Labour government after 1997. By 2011 some £62.28 billion of private finance had been arranged in England (£48.9 billion drawn down).[79] By 2009/10 over 1.2 million homes had been transferred from local authorities to housing associations since transfers began in 1988/89. These levered in around £16 billion at transfer.[80]

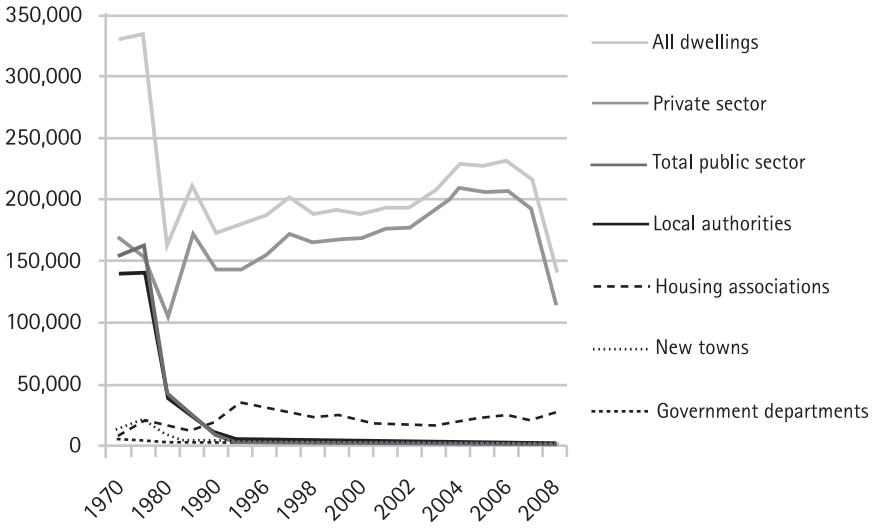
Indirect expenditure on housing via housing benefit increased rapidly over the period, from £5.4 billion in 1986/87 to £14.6 billion in 1996/97 and to £25.1 billion by 2009/10.[81]

74 Balchin and Rhoden, op cit
75 Wilcox, S and Pawson, H *UK Housing Review 2010-2011* (Chartered Institute of Housing, 2011) (www.ukhousingreview.org.uk)
76 Ibid
77 Balchin and Rhoden, op cit
78 Wilcox and Pawson, op cit
79 Tenant Services Authority *Quarterly Survey of Housing Associations* (January 2011) (www.tenantservicesauthority.org)
80 Wilcox and Pawson, op cit
81 Ibid

The shifts in government policy comprise a number of strands:

- a decline in direct housing expenditure as a proportion of government expenditure involving a shift from supply-side subsidy to demand-side subsidy (housing benefit);
- a move away from provision of homes by local authorities towards housing associations;
- a progressive replacement of direct public capital expenditure on social housing by private finance;
- an increasing residualisation of social housing from the provision of homes for general needs to provision for the most disadvantaged; and
- a strong emphasis on the promotion of owner-occupation for all but the most disadvantaged and an overall shift away from the provision of new public/social housing in favour of private homes mainly for owner-occupation, although with a significant minority actually going into the PRS since 2000.

Figure 5: UK housing starts, 1970-2008



Source: *UK Housing Review 2010/11*

Figure 5 shows the extent to which construction of new housing has been dominated by the private sector since 1980, and also the extent to which construction of new

homes has declined from historic levels in spite of a recovery after 2002, and before the further falls precipitated by the effects of the banking crisis from 2007.

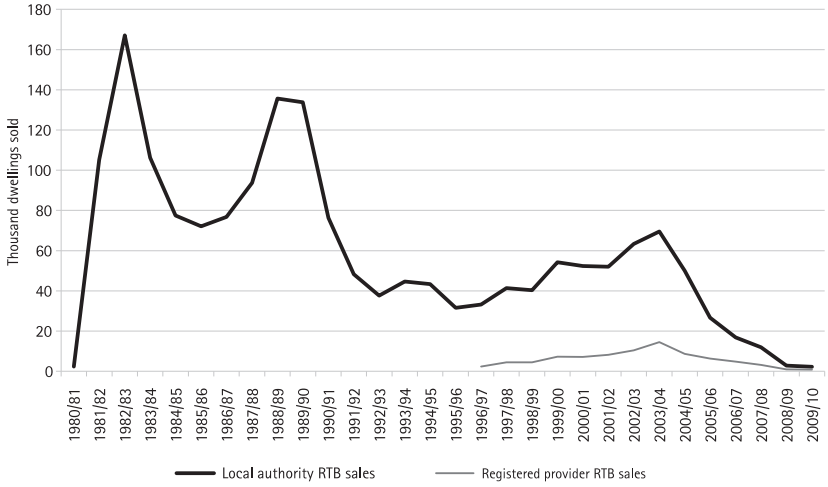
Promoting home ownership

In the context of this report it is the efforts of the governments since 1979 to promote home ownership that are of most interest. Public policy embraced a number of initiatives over the period.

Right to Buy

The most radical measure, and one that more than any other symbolised the shift in housing policy after 1979, was the RTB, introduced under the Housing Act 1980. The Conservative government was under no illusions that RTB represented a radical and controversial departure. As the then minister for the environment, Michael Heseltine, put it to parliament, RTB "lays the foundations for one of the most important social revolutions of this century".[82] The measure made it compulsory for local authorities to offer RTB under a system of generous discounts. The aim was to make a substantial contribution towards creating a "property-owning democracy". And more than any other single government measure before or since, it succeeded in that aim:

Figure 6: Sales of local authority and registered provider homes under the Right to Buy scheme in England



Source: DCLG housing statistics

82 Balchin and Rhoden, op cit

The results of RTB were startling. In England, 1,892,494 homes were sold to tenants by 2009.[83] Sales per year peaked at over 160,000 in 1982/83 but remained significant until falling away in the period following the Housing Act 2004, the anticipation of which created an upturn in sales as people bought in the (correct) expectation that the eligibility period would be extended and discounts reduced by the act. Having introduced the scheme, the Conservatives increased sale discounts in 1986 and again in 1988. Subsidies to buyers averaged over £12,000 in the period 1980-88, and by 1992 receipts from sales had cumulatively grossed the HM Treasury around £23 billion.[84] The bulk of these receipts were not ploughed back into new social housing until the incoming Labour government changed the position in 1997, so until then RTB represented a direct loss of resource to the social rented sector.

As figure 6 illustrates, sales gradually reduced as the best properties were sold, as discounts were progressively reduced after 2000, and as those who could afford to buy became a declining proportion of tenants – due to residualisation of the social rented sector caused by a shortage of new homes and by RTB itself. What will probably prove to be the final decline in sales was hastened by the tighter mortgage credit conditions that came in as the banking crisis took effect from 2007.

While Labour initially opposed RTB, its position was reversed after its catastrophic general election defeat of 1983. Many pundits believed at the time that the defeat was caused in part by opposition to the RTB. Since 1983 both major parties have in effect seen supporting RTB as politically necessary, even though there have been dissenting voices calling for its abolition to preserve the supply of social rented properties. As late as September 2010, housing minister Grant Shapps felt forced to deny a report that he was about to review the future of RTB.[85] Only in Scotland, heir to a more radical political tradition, is RTB being phased out. While support for RTB was based partly on abstract arguments about social responsibility and a property-owning democracy, it was also based on a clear perception of the financial advantages that RTB conveyed on those who chose to exercise it in an era where house prices could be expected to outstrip inflation over the long term.

As early as 1978, Peter Walker MP had claimed that for the period 1950-78 a typical council tenant might have paid £4,750 in rent. Over the same period, an owner-occupier buying a £2,000 house in 1950 would, by 1978, have paid only £2,750 in

83 Wilcox and Pawson, op cit
84 Balchin and Rhoden, op cit
85 Heywood, op cit

mortgage interest after tax relief but would possess an asset worth about £12,000.[86] It has been left for a later generation to consider whether such computations would look as attractive should there be a protracted period of stagnant or falling prices.

In relative tenure terms, RTB was very significant. A quick computation suggests that, all other things being equal, had RTB not existed the balance of tenures in England for 2009/10 would be as shown in figure 7.

Figure 7: Tenure balance in England, actual and with RTB subtracted

Tenure	1981 (actual)	2009/10 (actual)	2009/10 (RTB sales subtracted)
Owner-occupiers	57.2%	67.4%	58.6%
Social renters	31.7%	17.0%	25.8%
Private renters	11.1%	15.6%	15.6%

Source for actual figures: DCLG statistics

This would put present English home ownership levels close to the figure for 1981, and lower than all but six of the EU27 countries. One could argue that without RTB the proportion of home owners in England would have altered little in 30 years, in spite of all other government efforts and all the rhetoric about the "property-owning democracy". This would be to ignore the probability that some tenants would have bought their properties under pre-existing legislation and that a proportion might have purchased on the open market.

Nevertheless, the crucial importance of RTB to the current tenure balance is underlined. RTB is probably an unrepeatable policy, however. The number of tenants able to buy is much reduced, and the best properties are gone. There is now such a shortage of places within the residualised social rented sector that a government would almost certainly find it politically impossible to further reduce it significantly by offering the kind of discounts enjoyed by tenants in the heyday of RTB.

Low-cost home ownership

In comparison with RTB, the results of the low-cost home ownership (LCHO) programmes promoted since the 1980s look distinctly meagre. In spite of some government sponsorship of shared equity, mainly under the HomeBuy Direct scheme,

86 Balchin and Rhoden, op cit

since 2008 the majority of LCHO activity has been in the form of shared ownership. Since 1979 some 170,000 shared-ownership sales have been completed.[87] Between 1995/96 and 2009/10 new LCHO supply, mainly via HAs, has totalled 215,640 dwellings – an average of around 14,400 per year – though these figures include a range of schemes and cover both new-build and acquisitions.[88]

Recent data from the HCA suggests that the majority of applicants are drawn from the PRS or have been living with family or friends. Of all recent LCHO sales, 30.3% were in London and a further 20.3% were in the South East. The average sale price of a shared-ownership property in 2009/10 was £168,484, and that for equity loan schemes £165,141. On average, shared-ownership purchasers bought an initial 38.4% equity stake in their properties, with the percentage stake higher in regions with lower house prices.[89]

Governments of different shades have stressed the importance of LCHO programmes in facilitating the extension of home ownership. Significant resources have been devoted to what has been seen as a viable and desirable tenancy choice for all but the most disadvantaged. Yet the results have been extremely modest. Given the relatively low value of LCHO homes, the modest shares purchased and the fact that only 25% of shared-ownership residents achieve full ownership, it is difficult to choose the appropriate level at which to equate LCHO with "normal" home ownership.[90] Nevertheless, taking the 170,000 shared-ownership sales since 1979 as a working figure, and adding in sundry other schemes, it would appear that 30 years of LCHO promotion (apart from RTB) have probably contributed no more than about 2% to the overall level of home ownership as a tenure. This conclusion must raise doubts about its applicability as a radical policy tool in the future.

Such doubts would be reinforced by an examination of the progress of LCHO initiatives since 2007. Part of the government response to the onset of the banking crisis in 2007 was to encourage HAs to maintain and expand their LCHO activity, in spite of the evidence that the housing market was at a peak and that mortgage finance was being rapidly curtailed – particularly for those households on lower or less secure incomes and without substantial deposits. This attempt to act counter-cyclically at a point at which commercial developers were cutting their development programmes backfired badly. According to TSA records, by early 2009 over 10,000 LCHO properties were

87 National Housing Federation, op cit
88 DCLG housing statistics
89 Homes & Communities Agency figures, 2010
90 National Housing Federation, op cit

unsold.[91] The number of unsold homes had eroded to 3,817 by late 2010, but at the price of a steep decline in the rate of development.

In addition, the TSA reports falls in average value per sold unit, including a fall of 5.9% in the fourth quarter of 2010.[92] It is now widely recognised that lower prices, sales risk, higher refinancing risks and political uncertainty have contributed to a situation where the cross-subsidy model for LCHO development no longer works for HAs in large areas of England without reference to future government plans, though it still works in certain areas such as parts of London.[93] New HA loan facilities were low in 2009/10 and have remained at low levels during 2010/11, reflecting reduced development plans.[94]

As already indicated, the 2011 Budget announced a new FirstBuy equity loan scheme intended to assist 10,000 first-time buyers. The Coalition government continues to favour the cross-subsidy model and indeed is reducing grant over the next four years, progressively replacing it by allowing HAs to charge "affordable rents" at up to 80% of market rents on new-build and on re-lets of former general-needs properties. Affordable rents are by no means an unproblematic concept; a fuller discussion of the challenges facing HAs in relation to LCHO will be offered in a later chapter.

Mortgage interest tax relief: now you see it, now you don't

Along with RTB and LCHO, the other major factor in promoting home ownership in the early years after 1979 was the continuation of MITR at an enhanced level. The Conservative government raised the upper limit for eligible mortgages to £30,000 in 1983, after it had been allowed to stagnate for a significant period. The degree to which MITR actually promoted home ownership has been disputed. It benefited high earners, higher-rate tax payers and those with larger mortgages to a greater extent than those on the margins of ownership.

Given that over 80% of mortgaged transactions are for second-hand properties, the bulk of the benefits did not go to assist first-time buyers into new-build properties or indeed promote new-build as such. It has also been suggested that MITR put upward pressure on house prices by increasing the level of mortgage payments that most borrowers could afford. MITR undoubtedly contributed to the frenzy of the housing bubble that preceded the housing market downturn of 1989-95, by incentivising a rush

91 Heywood, A *Rhetoric to Reality: A Report on Affordable Housing Prospects in an Age of Austerity* (Smith Institute, 2010)
92 Tenant Services Authority quarterly survey, January 2010
93 Heywood, op cit (2010)
94 Tenant Services Authority, op cit (January 2010)

to purchase properties in 1988-89 in anticipation of the removal of double MITR from purchasing couples by the then chancellor, Nigel Lawson.

The above qualifications notwithstanding, MITR undoubtedly offered individual home owners strong reasons to struggle to gain a foothold on the housing ladder. It offered almost all borrowers what was, in effect, a substantial subsidy of their mortgage interest rate and privileged the tax status of residential property in comparison with other asset classes. In any case, residential property as an asset class was already easier for most individuals to access on a leveraged basis than other alternative investments. From 1963 until the process of curtailing MITR began in 1991, it contributed substantially to making the argument for entering home ownership incontrovertible.

Although HM Treasury did not accept that MITR was a subsidy to home owners, it was nevertheless extremely expensive in lost tax revenue and became more so. It has been estimated that the annual cost to the Exchequer was £298 million in 1970/71. By 1980/81 this had risen to £2.18 billion, and the figure peaked at £7.7 billion in 1990/91. This was more than the entire government expenditure on housing and community amenities in that year.[95]

In a neo-liberal political climate where the state was expected to retreat, reform of such a large and inequitable subsidy became inevitable. MITR was limited to the basic rate of tax in 1991 and then progressively phased out by 2000.

The private rented sector: free at last

Few in 1979 would have predicted a renaissance for the PRS, yet by 2009/10 the sector had seen 20 years of sustained growth both numerically and in relation to other tenures. A major stumbling block for renewed investment in the PRS remained rent controls and high levels of security of tenure, however, preventing landlords gaining control of their properties, reducing the rate of financial return and deterring lenders from offering mortgage finance on similar terms as for owner-occupation.

The Conservative government tackled these seemingly intractable problems in the Housing Act 1988. While keeping security for existing tenants it allowed new letting to be on the basis of an assured shorthold tenancy, which gave landlords the ability to remove unwanted tenants by limited notice after an initial period. It also allowed landlords to charge rents that the market would bear.

95 Wilcox and Pawson, op cit

The effect was immediate. After 70 years of decline, the PRS began to grow. From its low point of 9.1% of households (1.7 million homes) in 1988, the PRS expanded almost without interruption so that by 2009/10 it stood at 15.6% and 3.6 million homes.

A further important factor was, from 1996, the availability of buy-to-let (BTL) mortgage loans at LTV ratios of up to 85% and at interest rates little above those for residential loans. This was itself in part a consequence of the 1988 act, which allowed lenders more control over their security in the event of repossession and which allowed returns sufficient to meet mortgage payments. Expansion was rapid; in 1999 there were 73,200 BTL mortgage loans with a total value of £5.4 billion. By 2010 there were 1.3 million loans with a value of £151.5 billion.[96] The standard of PRS stock improved significantly over the period also, due in no small measure to an influx of more modern stock. However, there is now a problem with funding the PRS. BTL lending is much reduced since the onset of the banking crisis in 2007. The challenge of funding the PRS going forward will be addressed in a later chapter.

The policy approach to the PRS has been essentially bipartisan. Labour left the freedoms under the 1988 act alone, and in spite of calls for regulation of standards in the PRS (notably from HAs – a competitor) only used the Housing Act 2004 to add very limited regulatory measures in relation to houses in multiple occupation, tenancy deposits and certain other selected categories of tenancy. The government commissioned the Rugg report in 2008, which gave the PRS a reasonably clean bill of health.[97] The Coalition has indicated that further regulation is not planned.

There were a range of other factors tending to promote the PRS and, in some cases, to depress levels of home ownership. These will be examined in more detail in the next chapter. Here it will be sufficient to say that the key specific factors included:

- enhanced student numbers;
- increased inward migration;
- higher levels of relationship breakdown, leading to a need for an alternative tenure to owner-occupation;
- increased demand that would otherwise have been catered for in the declining social rented sector;
- an increased number of younger tenants renting for "lifestyle" reasons; and
- increasing affordability problems for young households wishing to access home ownership.

96 Council of Mortgage Lenders statistics
97 See: Rugg, J and Rhodes, D *Review of Private Rented Sector Housing* (DCLG, 2008) (www.york.ac.uk)

The reversal of fortune for the PRS since 1988 represents a significant policy achievement for government and does suggest that, if other fundamental social and economic factors are present, then well-directed intervention can quicken or even kick-start a trend. Arguably, the Housing Act 1988 is the sole important example of government successfully intervening in the PRS during the 20th century; for once, unforeseen (or, at least, unwanted) consequences did not outweigh the importance of the primary policy intention.

Summing up: government intervention and tenure change

In this and in the previous chapter, change in tenure over time has been analysed in relation to the policy of successive governments and broader social, market and economic factors. In the following chapters this work will provide a context for an examination of the trends and causes of falling home ownership and possible responses by government and others. Attempting to draw lessons for the future from "History" is a notoriously flawed enterprise. Even if commentators can detach themselves from the past and successfully analyse it in terms of trends and causative factors (a very big "if"), the degree to which the past can be said to resemble the present or provide some kind of blueprint is problematic at a philosophical as well as a purely empirical level.

Nevertheless, the past can help to inform the present, however imperfectly. The following observations could usefully be discussed and borne in mind when considering what viable options for intervention may exist for government in relation to a decline in home ownership levels:

- *Government intervention appears to work best when it runs in parallel to underlying socioeconomic or market trends.*
  In the 1950s and 1960s real incomes were rising, job security and welfare provision offered a new sense of stability, labour mobility was comparatively low, and house prices were relatively stable in relation to real incomes. Arguably, government action simply reinforced a strong underlying trend. Similarly, the expansion of the PRS in the 1990s and beyond was facilitated by the 1988 act, but took off because of a range of demographic and socioeconomic trends that expanded the rental market and because mortgage finance became much easier to obtain.

- *Government action is rarely decisive in terms of altering or modifying fundamental trends in tenure. When it succeeds in doing so, it tends to be by way of very costly or once-only initiatives that are only sustained for a limited period.*

MITR is an example of an effective measure that was extremely expensive and which was eventually ended because of cost and perceived distortions. RTB was extremely effective in altering the tenure balance in favour of owner-occupation but was essentially an unrepeatable measure; it has now probably run its course. Sustained programmes of local authority building of socially rented housing are an exception to this proposition, though even these have been subject to the vicissitudes of government spending decisions, and almost no local authority housing has been built since 1980.

- *Government policy action appears to be often subject to unintended consequences.*
  Government intervention was effective in helping to depress the PRS from 1918 until 1988. Yet this was never government's policy aim for the PRS. Policy was focused on offering security and fair rents to tenants, and in a broader sense (after the two world wars) on achieving social control. Government policy immediately after the First World War was ostensibly tenure-neutral (while at times promoting social renting), yet owner-occupation rather than the PRS was ultimately the largest beneficiary of early government action to promote the private building which then boomed during the inter-war years.

- *The positive political salience of government measures does not ensure their success on the scale hoped for.*
  LCHO activity since 1979 has received much positive political "spin". However, it has been very modest in terms of results, compared with its importance in terms of political rhetoric. Similarly, successive attempts to improve access to mortgage finance from the 1930s up to and including the banking crisis, while helpful to a minority of potential borrowers, have largely been marginal when considered in the context of the overall dynamics of the private housing and mortgage markets. It is the level of resources, and the existence of a strategy that is coherent with underlying trends, that appear to be decisive, rather than the political imperative.

The above points may be worth bearing in mind as later chapters consider policy options.

Chapter 4

Home ownership levels fall

Home ownership levels fall

After increasing for around 90 years, the seemingly inexorable forward march of home ownership has faltered.

Figure 8: Tenure trends in England, 1999 to 2009/10

	Owner-occupiers	Social renters	Private renters	All tenures
('000 households)				
1999	14,091	4,072	2,000	20,163
2000	14,339	3,953	2,029	20,320
2001	14,358	3,983	2,062	20,403
2002	14,559	3,972	2,131	20,662
2003	14,701	3,804	2,234	20,739
2004	14,677	3,797	2,284	20,758
2005	14,791	3,696	2,445	20,932
2006	14,790	3,736	2,566	21,092
2007	14,733	3,755	2,691	21,178
2008	14,628	3,797	2,982	21,407
2008/09	14,621	3,842	3,067	21,530
2009/10	14,525	3,675	3,355	21,554
(Percentages)				
1999	69.9	20.2	9.9	100.0
2000	70.6	19.5	10.0	100.0
2001	70.4	19.5	10.1	100.0
2002	70.5	19.2	10.3	100.0
2003	70.9	18.3	10.8	100.0
2004	70.7	18.3	11.0	100.0
2005	70.7	17.7	11.7	100.0
2006	70.1	17.7	12.2	100.0
2007	69.6	17.7	12.7	100.0
2008	68.3	17.7	13.9	100.0
2008/09	67.9	17.8	14.2	100.0
2009/10	67.4	17.0	15.6	100.0

Sources: 1999 to 2008 – ONS Labour Force Survey; 2008/09 onwards – English Housing Survey, full household sample

As already indicated, home ownership levels have fallen in percentage terms since 2003, from 70.9% to 67.4% in 2009/10. Significantly, the fall in home ownership levels has now translated into numerical terms also. Numbers of owner-occupied households have dropped by 265,000 from 2005 to 2009/10. This is not the only significant shift in the balance of tenures demonstrated by the above table. An extrapolation of data on the PRS and social rented sector suggests that the PRS could already have overtaken the latter numerically in England and thus become the second-largest tenure. It is widely predicted that this will occur in the UK as a whole by 2013.[98]

It appears that the largest movements of households between tenures are from the owner-occupied sector to the PRS. In 2009/10 some 97,000 households moved from the PRS into owner-occupation, whereas 168,000 households moved in the other direction. There was also a 12,000 net movement of households from owner-occupation into social renting, though this does not account for purchases of existing homes by tenants. Overall, 1.8 million households moved in 2009/10. This is a 600,000 drop on 2007/08 and is largely accounted for by a drop in numbers moving into or out of owner-occupation. This almost certainly reflects an inability of households to obtain mortgage finance and higher levels of negative equity in the wake of the banking crisis and housing market downturn.[99]

It may be objected that the current shifts in tenure are actually very modest and would take years to add up to a significantly different tenure balance. To this one can only reply that tenure change is comparatively slow unless one is considering new-build stock only or newly introduced stock (as under the RTB), where a shift in demand or newly enabled preference can quickly become significant. Most stock, of course, is not new-build – a third of the housing stock was built before 1945. Neither are most households newly formed. Changes in demand for different tenures will therefore become apparent gradually, as personal circumstances create a need to move home. The median length of residence for owner-occupiers is 12 years.[100]

In spite of inherent limitations on the rapidity of tenure change, actual change has been significant. Were recent trends to be arithmetically projected forwards (always a dangerous game), home ownership levels in 10 years' time might be close to 60% and

98 See: Pattison, B, Diacon, D, and Vine, J Tenure Trends in the UK Housing System: Will the Private Rented Sector Continue to Grow? (Building & Social Housing Foundation, 2010) (www. bshf.org)
99 English Housing Survey full household sample 2009/10 (www.communities.gov.uk)
100 Ibid

the PRS might be around 24%. The question, of course, is whether recent trends will continue in the future. The answer depends on an analysis of the factors promoting these tenure shifts.

Affordability

A key factor in falling home ownership levels is the decline in affordability of owner-occupation. The roots of this decline go back a significant way. As Alan Holmans has shown, following real house price falls in the 1950s, the trend in average house price rises outstripped average earnings from 1970 to 2000 in all areas of the UK except Scotland, but to the greatest extent in London, the South East, the South West and the Eastern region.[101] In addition, since 1980 the incomes of higher earners have risen faster than those of others, leading to greater pressure on those at the margins of home ownership in terms of income. Economic & Labour Market Review data confirms a significant increase in inequality between 1977 and 1991, with levels of inequality maintained since.[102] In 2001, before the effects of the final pre-banking crisis boom, Holmans predicted: "If these trends continue access to house purchase will be constrained particularly for one earner households and more severely in the South of England."[103]

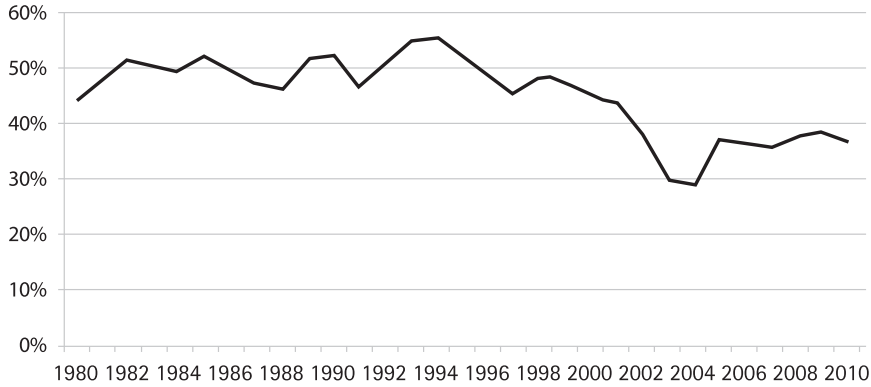
The decline in affordability is confirmed by government figures suggesting that in 1970 the price-to-income ratio for all buyers was 2.58 and for first-time buyers was 2.45. It peaked for all buyers in 2005 at 5.04, but in 2010 was, in spite of the downturn, still 4.96 overall and 4.54 for FTBs. The effects of a worsening of the price-to-income ratio can be mitigated for mortgaged buyers at times of low interest rates which reduce mortgage payments as a proportion of income. However, over the long term it will have an effect.[104]

As affordability tightens, one would expect to see a larger impact on potential FTBs attempting to gain access to owner-occupation. A drop in the numbers of FTBs will ultimately feed through into lower levels of home ownership (unless other factors intervene), since they will be inadequate in number to replace exiting owners who trade out of home ownership or die. Lack of FTBs will alter the balance of supply and demand and hence tend to influence house prices in a downward direction at some point. There has been a long-term drop in the proportion and absolute numbers of FTBs, as shown in figure 9.

101 Holmans, op cit
102 Jones, F, Annan, D and Shah, S *The Distribution of Household Income 1977-2006/07* (ONS, 2008) (www.statistics.gov.uk)
103 Holmans, op cit
104 DCLG statistics (www.communities.go.uk)

Figure 9: Proportion of loans to first-time buyers, 1980-2010

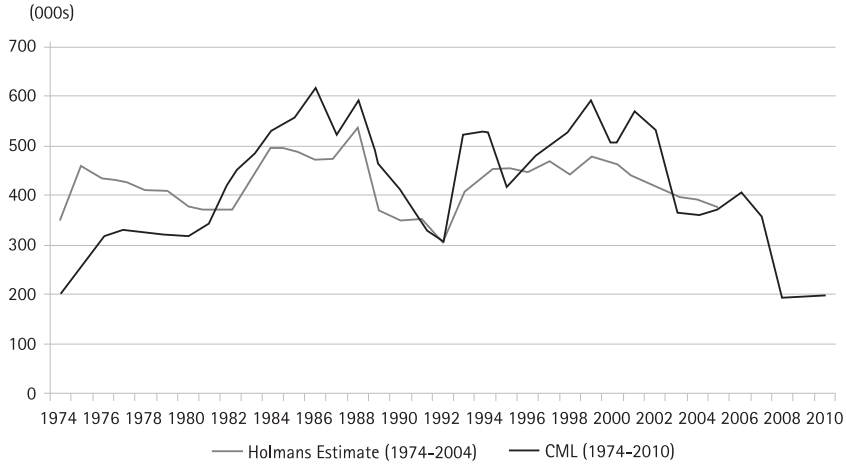
Loans advanced to first-time buyers as a percentage of all loans advanced for house purchase



Source: CML Survey of Mortgage Lenders (data to 2004); CML Regulated Mortgage Survey (data from 2005)

FTB numbers have declined in absolute terms also:

Figure 10: Numbers of first-time buyers, 1973-2010



Source: CML Survey of Mortgage Lenders (to 2004) and Regulated Mortgage Survey (from 2005); Holmans, *A Past & Current Trends in House Prices & Incomes & Access to Home Ownership* (Cambridge, 2001)

Professor Christine Whitehead and others have drawn attention to a decline in the rates of owner-occupation among younger age groups since the late 1980s.[105] This will almost certainly be in large measure a consequence of affordability constraints, though other factors such as later household formation and greater labour mobility will have played a part. In effect, this introduces a "cohort" effect by which older generations continue with higher rates of occupation because they were able to gain access at an earlier time but are not replaced by younger cohorts at the same level of owner-occupation as the older generation die or move out of owner-occupation. On this reading, movement in home ownership levels at any one time is caused by issues of access to the tenure well in the past. While the national average age of FTBs is 31, there is significant regional variation, with London and the South East, for instance, experiencing lower representation of younger FTBs.[106]

Overall, it is clear that affordability has declined over a long period and that recent housing market turbulence has not significantly reversed the effects of that trend. This has led to a decline in FTBs numerically and as a proportion of all buyers, while falling home ownership rates among younger age groups have also declined. Significantly, this trend is long-term and cannot simply be ascribed to a famine in mortgage finance since 2007. Nevertheless, the availability of mortgage finance on terms attractive to FTBs as well as to existing owners is a key factor in the maintenance of owner-occupation levels and will now be considered.

Mortgage finance: the morning after

The UK mortgage market has changed radically since the onset of the banking crisis in 2007. Those changes are having a significant impact on access to the housing market and are unlikely to be temporary.

While underlying long-term affordability pressures were building up, from the late 1990s an unparalleled expansion in mortgage lending on favourable terms fuelled the housing market bubble that burst in 2007/08. Encouraged by low interest rates and the availability of plentiful funds via the international capital markets, lenders expanded their balance sheets and issued increasing amounts of mortgage-backed securities to fund a rapid, competitively driven expansion in mortgage lending. The aim was to increase market share in an overcrowded lending market.[107]

105 Whitehead, C "International Trends in Owner-occupation in the Light of the Financial Crisis" in *Housing Finance International*, Winter 2010 (www.housingfinance.org)
106 Council of Mortgage Lenders, 2011
107 Financial Services Authority *The Turner Review: A Regulatory Response to the Global Banking Crisis* (2009) (www.fsa.gov.uk)

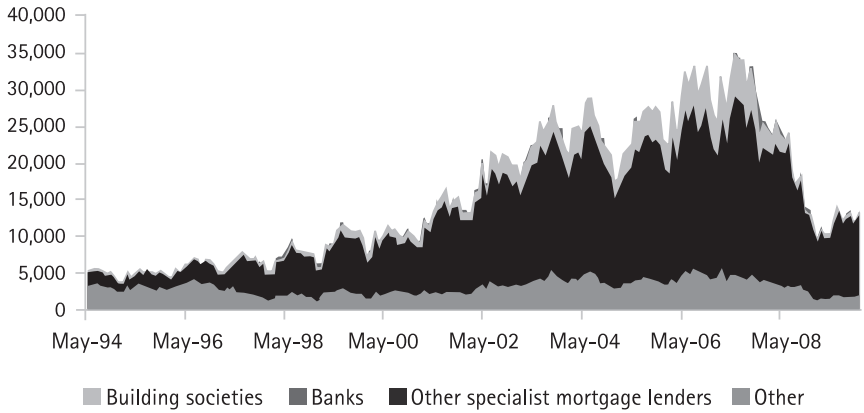
The results were unsustainable:

- a relaxation of lending standards and an under-pricing of credit risk;
- an expansion in sub-prime lending and other higher-risk lending, though not to the same extent as in the US;
- an over-reliance on the liquidity provided by the capital markets and an underestimation of the risk that such liquidity could dry up abruptly when investor confidence faltered; and
- the maintenance of inadequate capital levels by lenders, connected to the perceived need to maintain profitability and to an underestimation of liquidity and credit risk.

From around 2000 the outcome for borrowers was unprecedented access to mortgage finance at low interest rates, with high LTV and the option of equity withdrawal on relaxed terms. Swathes of potential borrowers with impaired credit histories became or maintained their status as home owners.

When the music stopped in September 2007 with the collapse of Northern Rock, the effects were dramatic, as shown in figure 11.

Figure 11: Gross mortgage lending by type of lender, 1994-2008 (£m)



Source: CML

The chart above clearly demonstrates the rapid escalation of lending from 2000 and the abrupt collapse in lending levels in late 2007. In spite of high-profile failures,

bank lending has actually held up better than lending by building societies or specialist lenders, and banks now have a record share of the mortgage market. Overall, the number of loans for house purchase dropped from 1.4 million in 2006 to 600,000 in 2010.[108] The percentage of households with a mortgage has declined from a peak of 41.5% in 2001 to 35.6% in 2009/10.[109]

Levels of lending have not been affected uniformly. In a situation where lenders have more potential borrowers than funds to lend and where capital is short, there will be a strong incentive to lend to those who represent the safest proposition. In addition, if lenders already have a larger proportion of "risky" loans on their books than is now acceptable, there will be a desire to rebalance in favour of "safer" loans." Under bank capital requirements updated in the wake of the crisis, lenders must hold significantly higher capital against higher-risk lending than was the case before the crisis. Many of the lenders who used to undertake higher-risk lending were reliant on the capital markets for funding; these have dried up and such lenders are now out of business or inactive.

Certain types of mortgage lending will be hit harder. These include:

- high-LTV lending;
- lending to those with impaired credit histories (sub-prime);
- lending to those whose incomes are on the margin in terms of servicing a loan;
- self-certification lending (also affected by regulatory scrutiny); and
- lending on less attractive properties in valuation terms.

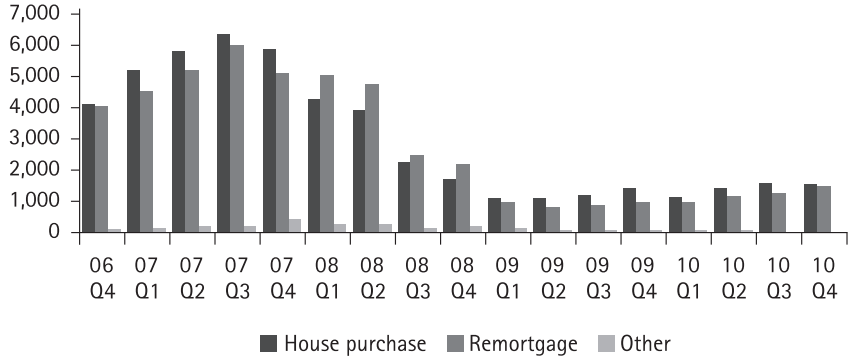
The figures on high-LTV lending are stark. In the second quarter of 2008, 55.7% of gross lending was at less than 75% LTV while 10.4% was at over 90%. By the fourth quarter of 2010, 70.4% of lending was at less than 75% LTV and a mere 2.2% over 90%, with the figure over 95% at 0.6%.[110]

Only 24% of loans were equivalent to more than three times the borrower's income in the fourth quarter of 2010, while the proportion of income self-certified loans had dropped from 27% to 17% over the previous 18 months.[111]

108 Council of Mortgage Lenders statistics
109 See: Coles, A "Owner Occupation Continues to Decline, Private Renting Now (Probably) Bigger than Social Renting", online article at BSA website, 30 March 2011 (www.bsa.org.uk)
110 Financial Services Authority, in Council of Mortgage Lenders statistics
111 Ibid

One area of lending particularly badly hit has been buy-to-let. During the crisis there were fears (so far unrealised) that buy-to-let lending would fare less well than residential. In addition, the specialist lenders reliant on the capital markets were more active in this market.

Figure 12: Buy-to-let gross advances (£m)



Source: CML

Buy-to-let lending is profitable for lenders, and volumes will probably partially recover over time, though the 85% LTV loans with low rental cover requirements that prevailed up to 1987 are unlikely to return. This raises questions about future funding of the PRS that will be discussed fully later.

Lending for LCHO

Mortgage lenders have not, traditionally, viewed lending for shared ownership particularly favourably, and since the banking crisis they have been vocal in expressing their preference for equity loan LCHO products. The reasons for lack of enthusiasm among lenders can be summarised:

- Shared ownership is generally perceived by lenders as exhibiting worse default characteristics than comparable lending to other FTBs – though lender data is not publically available and the NHF disputes this proposition.

- It is complicated relative to mainstream lending and hence more resource-intensive.

- The situation following default can be difficult and time-consuming to resolve,

- though the new HCA shared-ownership lease and the NHF/CML protocol on handling default may have made some difference here.

- Shared ownership involves small loans relative to other lending.

- Under FSA rules, shared ownership requires lenders to hold higher levels of capital when there is a high LTV on the purchased share. This reinforces the reluctance of lenders to offer LTVs significantly higher than on conventional lending, even though they have a claim against the share of the property retained by the HA.

In spite of the above, a combination of strong pressure from government in the wake of the banking crisis and the assiduity of developing HAs in forging relationships with lenders and brokers has meant that lending for shared ownership held up relatively well during the banking crisis. Sales of shared-ownership properties (almost all involving mortgages) declined by 19% between 2007/08 and 2008/09, according to the TSA. At the same time, loans to FTBs as a whole declined by 46% and total loans for house purchase by 60%.[112]

Nevertheless, the relative outlook for lending on shared-ownership properties over the longer term remains questionable. Much will depend on the relative performance of shared-ownership loans if the general level of arrears and possessions begins to rise steeply. A further factor will be the degree to which government is able to maintain pressure to sustain such lending as the reliance by the banks on public funds diminishes. In any case, as already noted, the number and value per property of shared-ownership sales declined in the fourth quarter of 2010 as housing market conditions deteriorated, according to the TSA.[113]

Equity withdrawal

Rising levels of equity withdrawal by borrowers were characteristic of the period from the millennium to 2007. This fuelled various types of consumption as well as repairs and improvements to properties. It will also have been a means for home owners to assist FTB relatives or friends to raise a deposit to purchase their first property. Housing equity withdrawal reached a peak equivalent to 8.5% of post-tax income in the fourth quarter of 2003. Now, as Bank of England figures show, equity release has reduced sharply.

112 Council of Mortgage Lenders statistics and Tenant Services Authority
113 Tenant Services Authority quarterly survey 2011

Figure 13: Housing equity withdrawal, 2002-10

Source: Bank of England

For the past two years, housing equity withdrawal has actually been negative; borrowers are paying down their mortgages at the rate of –2.7% of post-tax income. The reasons for the change in behaviour are not entirely clear, but will probably be in part a result of low interest rates and therefore mortgage payments enabling repayment at a faster rate, and concern about future interest rate movements and/or economic prospects. This phenomenon has several potential effects:

- Some potential FTBs may find it even harder to raise a deposit.
- Economic growth could be negatively affected as consumption slows, though this could be seen as contributing to economic "rebalancing" in favour of production and exports.
- The intergenerational cohort effect of falling home ownership is reinforced as older home-owning households accumulate housing equity while many younger households fail to gain access to home ownership and hence do not have the opportunity to augment their wealth in this way.

Overall effects of developments in the mortgage market
The effects of the changes in the mortgage market have had a particular impact on certain groups of potential purchasers:

- first-time buyers;
- those seeking high-LTV loans (in other words, without substantial deposits);
- those with low incomes; and
- those with impaired credit histories.

According to CML data, the number of loans to FTBs is now around half of the pre-2007 figure, and it has already been seen that the proportion of high-LTV loans has dropped drastically. The CML has estimated that while the average age of FTBs has remained at around 31, some 80% of under-30 FTBs have had to seek family help in raising a deposit, compared with less than 40% in 2005. An average FTB now has to find a deposit equivalent to around 94% of their annual income, compared with 37% of their annual income in 2007.[114] Ultimately, it is likely that the average age of FTBs will rise as the "Bank of Mum and Dad" becomes less accommodating over the longer term and saving for a deposit takes longer. As Professor David Miles has recently shown, this automatically reduces the overall level of home ownership if other factors remain the same.[115]

Affordable housing providers will note that the profile of those who will find most difficulty in gaining access to mortgage finance is close to that of those who would previously have been prospective shared-ownership buyers, namely first-time buyers with very limited deposits and below-average incomes. Anecdotally, a number of HAs have reported that while they are still selling shared-ownership properties, the financial profile of those buying has shifted towards those who are less disadvantaged. This raises some questions about the future value of shared ownership as a means of assisting those to whom other options (such as outright ownership or shared equity) are not available.

Future mortgage market prospects
There is still a tendency for those with an interest in the housing and mortgage markets to assume that the availability of mortgage finance will quickly revert to pre-banking crisis levels. A very modest improvement in 75%-90% LTV lending notwithstanding, the idea that changes in lender behaviour are purely temporary is misconceived:

114 *The Scale of the First-time Buyer Challenge* (Council of Mortgage Lenders, 2011)
115 David Miles "Mortgages and Housing in the Near and Long Term", speech given on 31 March 2011 (www.bankofengland.co.uk)

- The UK lacks the domestic capital markets investment base of countries such as the US and Germany and will find it more difficult to rebuild access to reasonably priced funding from investors, who are now significantly more cautious about mortgage-backed securities than before 2007.

- The financial support given to lenders under the Bank of England Special Liquidity Scheme and Credit Guarantee Scheme (around £350 million) will have to be refinanced within the next few years. Access to the Credit Guarantee Scheme ceases in 2012.[116]

- Lenders already have significant portfolios of toxic loans (such as those to the commercial property sector) that will constrain future lending. There are also fears about the performance of parts of residential loan books when interest rates rise and if the domestic economy and housing market deteriorate further.

- Most lenders are already exercising forbearance in relation to a significant number of borrowers in difficulties. It is unclear how much longer this can continue.

- The requirements for banks to hold capital against lending have been tightened under the Basel 3 Capital Accord and are likely to be tightened further. This makes lending less available and more costly; it also reinforces the pressure to reduce balance sheets. It has been suggested that without relentless government pressure on banks to lend, credit would be even more constrained.

- The FSA as regulator is in the process of clamping down on what it sees as "irresponsible lending" via the Mortgage Market Review[117] and related initiatives. In addition, the EU Commission published a draft directive on responsible lending and borrowing in April 2011. Increased emphasis on ensuring that lending is affordable over time and related measures to curb excesses will inevitably curtail access to funds for those whose circumstances make such lending more risky for them or for the lender.

- The consolidation among banks and building societies as a result of the crisis is likely to moderate the ferocity of competition for market share which fuelled lending practices in the period up to 2007.

116 Bank of England (www.bankofengland.co.uk)
117 Financial Services Authority *Mortgage Market Review* (2009) (www.fsa.gov.uk)

Overall, the terms and conditions of lending in the first seven years of the millennium were caused by a particular conjunction of economic and other conditions that are unlikely to be repeated. The prospects for home ownership should be judged by reference to a more conservative mortgage market in which lending will be less adventurous and where those with larger, more secure incomes and with significant savings will benefit disproportionately in terms of access to funds. This situation will persist into the longer term, despite some modest improvement in volume of lending that will become apparent as the banking crisis recedes.

Demographics

Household formation

The English population is set to increase substantially by around 30% in the next 25 years. Clearly, this will put pressure on all tenures, since it amounts to an increase of around 250,000 households a year.[118] While this does not in itself favour owner-occupation over other tenures, it might be expected at first sight that all tenures could grow numerically if appropriate socioeconomic circumstances allowed housing need to translate into effective demand. The distinction between need and demand is an important one; demand rests on the ability (for instance) to access a stable job on a reasonable income, to be fairly debt-free and to be able to acquire a mortgage on affordable terms. Failure to distinguish "need" from "demand" as concepts can lead to simplistic and over-optimistic projections about private housing demand and house prices. Unmet housing need can coexist with lack of demand and stagnant or falling prices.

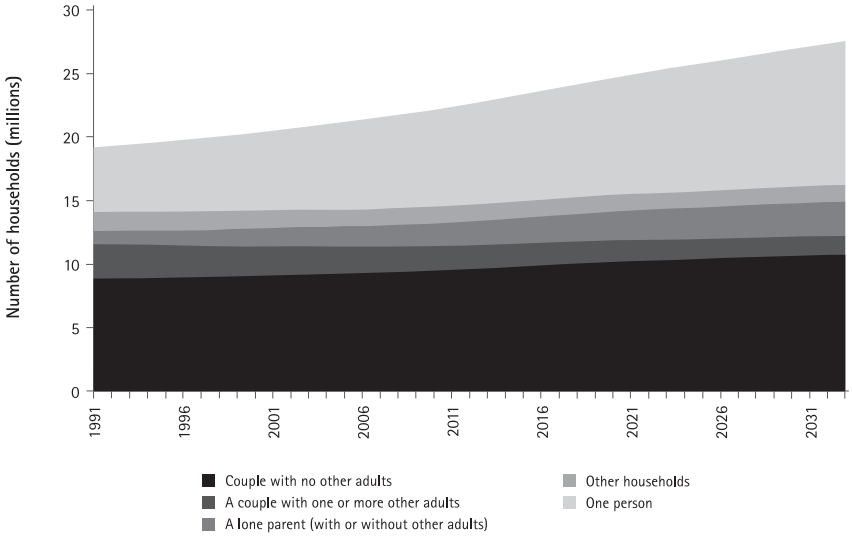
In fact, a closer look at the household projections suggests that owner-occupation may become relatively less appropriate.

Figure 14 shows a rapid increase in lone-parent households. In fact around two-thirds of the increase in households will be made up of one-person households, who will comprise 19% of households by 2033. In addition (and not obvious from the chart) is the increase in the proportion of elderly home owners. By 2033, some 33% of households will be headed by someone aged over 65, up from 26% in 2008. The "traditional" households of two adults of an age to bear and bring up children, which have formed the backbone of home ownership, are declining as a proportion of all households, to be replaced by households that are less likely to buy – and, in some cases, cannot. Many elderly households may even be disinvesting from the housing market. In addition, the

118 DCLG statistics

largest increase in numbers of households is projected to take place in the South East and other regions where affordability is particularly stretched.

Figure 14: Household projections for England, 1991-2033



Source: DCLG statistics

It would appear therefore that the pattern of household formation is consistent with a declining level of home ownership. Given the constraints of the social rented sector, it would seem that the main beneficiary of developing patterns of household formation will be the PRS.

Immigration

The UK now has a less settled population than 50 years ago, with significant levels of inward and outward migration. In 2010 the Home Office issued 2.1 million entry visas for those coming into the UK.[119] A recent study suggested that the level of recent migrants hosted by the UK is twice the average for the EU27.[120] Recent immigrants are usually unable to obtain a mortgage, for technical reasons, and are often in low-paid or insecure employment. Given that a high proportion of immigrants will wish to return to their former country of residence within the medium term, those in

119 Home Office immigration and asylum statistics (www.homeoffice.gov.uk)
120 Green, A, Baldauf, B and Owen, D *Study on Workers' Mobility: Short Term Mobility Final Report* (University of Warwick, 2009)

this group are likely to access the PRS rather than home ownership, at least until or unless they become established in the UK.

Changing work patterns

It has been persuasively argued that home ownership best serves a workforce in secure full-time employment and whose mobility from job to job is limited. Home ownership transaction costs are relatively high compared with other tenures, and the liquidity of a home as an asset is uncertain, depending on a range of factors – including the state of the housing and mortgage markets and the condition of the property. In addition, lenders prefer incomes that are secure and stable, particularly in the post-banking crisis world.

For more than 25 years, successive governments have promoted the virtues of a flexible workforce against the backdrop of increasing globalisation. The economy itself has changed as large-scale manufacturing has declined and as the service sector (and notably the financial services sector) has expanded. The outcome has been a relative drop in the proportion of those in secure full-time employment and a rise in the proportion of part-time and casual workers. There has also been some increase in the numbers of self-employed since 1985.[121] A "job for life" has become rarer, as workers change jobs more frequently.

Insecurity and mobility are vividly illustrated by unemployment statistics. In spite of some definitional changes, the underlying trend is clear. From 1950 to 1970, the unemployed claimant count was never higher than 640,000. In 1979 the figure was 1.4 million. When Labour came to power in 1997 it was just over 2 million, and for the quarter to November 2010 it was 2.5 million.[122] Trade union membership, traditionally a barometer of confidence and bargaining power in the workplace, peaked in 1982 at over 13 million, but by 2009 had fallen to 6.7 million.[123]

The shift in work patterns is broadly away from full-time secure employment towards greater volatility and mobility, and towards modes of working that are less likely to support a successful application for a mortgage sufficient to gain access to the housing market. These appear to be long-term trends that will probably already have had an influence in shifting the tenure balance from home ownership towards the PRS, which is more attainable for those on lower, less secure incomes. There is no reason to think that the trend will do anything other than continue. Given the constraints on

121 Lindsay, C and Macaulay, C Growth in *Self-employment in the UK* (ONS, 2004) (www.statistics.gov.uk)
122 Office for National Statistics (www.statistics.gov.uk)
123 Archur, J *Trade Union Membership 2009* (DBIS, 2009) (http://stats.bis.gov.uk)

development in the affordable sector, the main future beneficiary in terms of tenure is likely to continue to be the PRS.

Personal indebtedness

Personal indebtedness is an issue for many in the UK. Leaving aside £1.24 trillion of outstanding secured lending in February 2011, outstanding unsecured lending amounted to an additional £212.4 billion, of which credit card balances accounted for £58.5 billion. By comparison, in 2000, outstanding unsecured lending to individuals accounted for only £94.9 billion.[124]

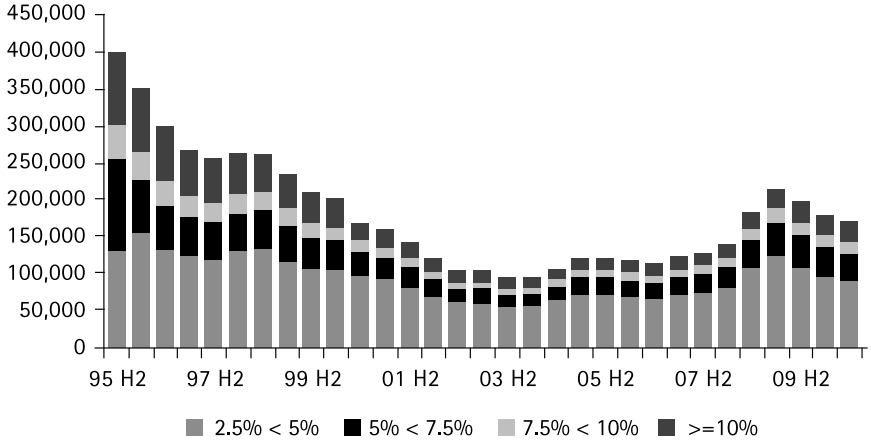
As long ago as 2005, the Griffiths Commission on Personal Debt described indebtedness as a "time bomb" for millions of households, with average unsecured debt levels standing at £4,000. By 2008 it was reported that personal debt in the UK (including secured debt) was running at £1.44 trillion and had exceeded UK GDP for the second year in a row.[125] Though rattled households have attempted to pay down on loans and credit cards, debt is still at historically high levels, at £1.45 trillion.[126] Debt tends to hit hardest those lower down the income scale. Questioned in 2008/09, only 4% of low-to-middle earners who were home owners were using lower mortgage payments to build up savings. However, 34% were paying off debt.[127]

While the majority of debt is mortgage debt (and hence a function of prices and affordability), the levels of unsecured debt have caused worries for overloaded debt advice agencies across the UK. The debt burden is also not evenly distributed, with the majority coping well with acceptable levels while a significant minority (often those on lower incomes) struggle even at a point when mortgage interest rates are at a record low.

In the post-credit crisis environment, high levels of unsecured debt will make it difficult for a wide swathe of individuals to access mortgage finance or to remortgage if they are already home owners. Such problems will already have contributed some downward pressure on home ownership levels. A related problem is that of mortgage arrears and negative equity – which does not show up in personal debt figures. Mortgage arrears have been kept under control so far, because of a combination of exceptional lender forbearance and low interest rates.

124 Bank of England statistical release (www.bankofengland.co.uk)
125 "Personal Debt in UK Exceeds GDP for Second Year" in *The Independent*, 22 August 2008 (www.independent.co.uk)
126 Bank of England
127 Resolution Foundation *Squeezed Britain* (2010) (www.resolutionfoundation.org)

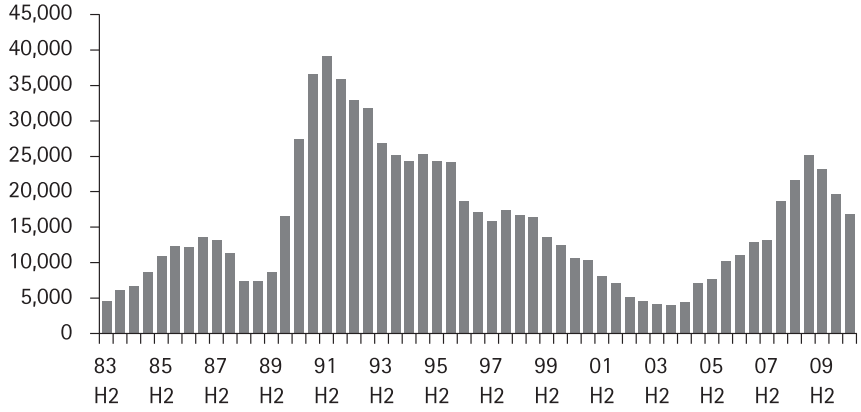
Figure 15: Number of mortgages in arrears, by percentage of balance in arrears



Source: CML

Similarly, possessions are also well under the levels seen during the last recession.

Figure 16: UK mortgage repossessions



Source: CML

Nevertheless, many commentators are predicting a serious increase in repossessions. Lender forbearance towards those in default has been extended, partly as a result of government pressure. However, forbearance cannot go on forever, unless the borrower is able to turn their position around. The limits of forbearance may be reached for many as interest rates rise and/or unemployment increases. The government has extended the temporary concession in relation to income support for mortgage interest in order that borrowers may claim after three months instead of nine. However, the concession ends in December 2011. The CML is predicting a modest rise in repossessions between 2010 and 2011, from 36,000 to 40,000. If unemployment and interest rates rise sharply, however, this prediction could prove over-optimistic.[128] In terms of negative equity, the CML has already estimated that, of the 7 million mortgages taken out since 2005, some 2.2 million of those borrowers would have limited options as a result of low or negative equity. The prospects for some of these households remaining in home ownership in the longer term must be questionable. The future ownership prospects for those who lose their homes as a result of repossession will be grim.[129]

Overall, levels of personal debt will probably already have had some limited impact on home ownership levels. It is likely, however, that a combination of unsecured debt, mortgage arrears and negative equity will have a significant effect going forward.

Student debt

It has been widely acknowledged that the gradual increase in student debt since the mid 1990s due to abolition of student grants and changes to higher-education funding has had an impact on the age at which FTBs enter home ownership, and on their propensity to do so. There was a shift away from the under-34 age group in the period after 1995, though the average age of FTBs has recently stabilised at 31.[130]

According to university guide Push, projected average student debt levels for 2010 were £25,000.[131] With changes to fees due to come in from 2011, that average debt level is set to rise steeply. While repayment levels are modest (and deferred), the burden of debt is likely to be an important subjective factor in deciding whether to access home ownership at any particular point in time. In addition, the ability to save for the all-important deposit will be further impaired.

128 Council of Mortgage Lenders housing and mortgage market forecasts (www.coml.org.uk)
129 Council of Mortgage Lenders, 2011
130 Council of Mortgage Lenders, 2011
131 "Student Debt to Reach £25,000 for 2010 Intake", BBC report (www.bbc.co.uk/news/education-10952303)

Taxation and benefits

During the past 20 years there has been a shift in the balance of direct taxation, in favour of landlords and away from owner-occupiers. Landlords still receive tax relief on mortgage loan interest. MITR for owner-occupiers was phased out between 1991 and 2000. At its height, MITR was worth £7.7 billion; when viewed as a subsidy it amounted to more than the entire government housing and communities' budget.[132] As discussed in chapter 3 of this report, MITR was in effect a very significant subsidy for mortgaged buyers; its removal will not have been without effect. It should be noted that landlords are required to pay capital gains tax, whereas owner-occupiers do not on their primary residence. It will be interesting to see whether recent discussion of a possible high-value housing tax when the 50% income tax rate is abolished redresses the balance here also.

The 2011 Budget announced two further commitments to alleviate taxation on landlords. There is a commitment to lessen the stamp duty land tax burden for those making bulk purchases of properties. In addition the Chancellor will look at ways of making residential real estate investment trusts (REITS) a more attractive proposition for institutional investors. These measures clearly benefit the PRS rather than owner-occupiers, and must be seen as an attempt to mitigate the effects of the fall-off in mortgage lending for buy-to-let and the long-term deficiency in institutional investment in the PRS that has already been referred to in this report. Stamp duty land tax has long been seen as an impediment for FTBs, though concessions mean that properties under £125,000 are now exempt. The rate for properties between £125,000 and £250,000 is 1%, which can be significant for some FTBs.

The benefits system is inequitable between tenants and owner-occupiers. Owner-occupiers as a group receive less than 10% of the total assistance given to tenants in cash terms.[133] Up to half the poor are home owners, and relative lack of assistance is particularly striking for these households.[134] While there is nothing new in this imbalance, it was previously more than counterbalanced by MITR for home owners. However, it provides yet another disincentive for those on low incomes to buy and thus can be seen as a limiting factor in relation to the sustainable upper limit for the level of owner-occupation.

Overall, the tax system has shifted to become more favourable to PRS landlords and less favourable to owner-occupiers over the past 20 years, and recent budget

132 See chapter 3
133 Wilcox and Pawson, op cit
134 Burrows, R, Ford, J and Wilcox, S "Half the Poor?" in *Housing Finance Review*, 2000/01 (www.ukhousingreview.org.uk)

announcements reaffirm this trend. The benefit/assistance system, which is of particular relevance to home owners on the financial margin, remains inequitable. These are important factors in considering future trends in tenure. Again, the PRS is likely to be the beneficiary.

Pensions and care

The UK pensions crisis has been in the news for at least the past decade. The Pensions (Turner) Commission reports of 2004 and 2005 set out clearly the scale of the problems and the action that would be needed to deal with them, and was accepted in its essentials by the then government.

The underlying problem is longevity. In 1980/82, life expectancy at birth for English males was 71 and for females 77, with almost identical figures for the UK. By 2007/09 this had risen to 78 and 82 respectively, and many commentators believe it will rise further.[135] With no rise in retirement ages and with economic inactivity among those above the age for state pension entitlement at almost 90%, this was bound to put pressure on occupational pension schemes due to changed actuarial assumptions, as well as on the state scheme itself.

In overall terms, the Pensions Commission noted that the dependency ratio (those not working as a proportion of those working) is set to rise from 27% in 2005 to 47% in 2050. People are not saving enough for an extended retirement, and state resources will come under increasing pressure. Turner concluded that the rate of saving for retirement would have to improve, retirement ages would have to increase, and the state would need to intervene and make more resources available. Without action, those reaching retirement would become increasingly impoverished.

The underlying position has been exacerbated by the widespread closure of occupational defined-benefit pension schemes to new members, or even to further contributions from existing members. Benefits from these schemes have frequently been eroded also. Defined benefits have usually been replaced with defined contribution schemes, which are generally recognised as more risky for members and less generous.

The proliferation of personal pensions since the mid 1980s has not provided the kind of benefits in retirement that were hoped for. The link between the state pension and average earnings was broken in the 1980s, and the state earnings related pension scheme (SERPS) was curtailed, so that for a long period state pension entitlement

135 Office for National Statistics interim life tables (www.statistics.gov.uk)

dropped behind earnings. In overall terms, the Fidelity Retirement Index calculated in 2008 that the average worker would experience a 53% drop in income on retirement.[136]

The last Labour government responded to the pension crisis by introducing a minimum income guarantee, stakeholder pensions and the second state pension. Everyone will now be offered the chance to save for a pension via their employer. The present government has restored the state pension earnings link, but has simultaneously raised the minimum age of entitlement for both men and women to 66 by 2020, and ultimately it will be higher. In addition, the Public Sector Pensions Commission under Lord Hutton has recommended significant cutbacks to public-sector pension benefits.[137] Private-sector occupational pensions are likely to switch from RPI indexing to CPI in large numbers, leading to lower average inflation increases.

The pensions picture is now a complex one. At the bottom end of the income scale, the pension position of those mainly reliant on the state should gradually improve – so long as older employees are able to work for longer. Some of this improvement will become significant only gradually, however. Higher up the scale, the position in relation to occupational pensions appears to be still deteriorating.

The other major retirement drain for the elderly is care provided via the local authority, whether residential or not. Assistance with care is means-tested and is commonly met from housing equity in the case of home owners. Ultimately, it leads to disinvestment and/or sale of the property. The sums derived from housing assets that are used for the funding of care are very substantial and are likely to grow as longevity improves and if the incidence of age-related diseases such as dementia continues to increase. It has been estimated that the demand for private residential care homes will increase from 382,000 places to 420,000 by 2020. "Private payers" are estimated to constitute 40% of care home demand.[138]

It would seem that there is likely to be a period during which the overall pensions position deteriorates further for a cohort of retirees. The picture is somewhat uncertain thereafter, particularly if the move away from defined-benefit occupational schemes continues. The care situation could deteriorate with enhanced longevity too. All this will put elderly home owners under increased pressure to disinvest from the housing

136 See: "Pensions: Average Retirement Income 'Less than Minimum Wage'" in *The Guardian*, 30 May 2008 (www.guardian.co.uk)
137 Independent Public Service Pensions Commission *Final Report* (http://hm-treasury.gov.uk/indreview_johnhutton_pensions.htm)
138 Laing & Buisson *Care of Elderly People: UK Market Survey 2010/11* (2010) (www.privatehealth.co.uk)

market to fund their old age. This is unlikely to be by way of formal lifetime/equity-release mortgages, in the short term at least; these currently run at only around 1% of all new mortgages.[139] A more probable scenario is downsizing to a smaller property or moving into rented accommodation.

The effect of increased reliance on housing wealth to fund aspects of old age is a lower level of home ownership among the elderly and a diminished rate of transmission of housing wealth to the next generation. Ultimately, this could have a negative effect on the overall level of home ownership over time.

Falling home ownership levels: will they continue?

The level of owner-occupation has been falling in both relative and numerical terms, and the main beneficiary has been the PRS. It would be easy to dismiss this change as a blip caused by the banking crisis, and one which will rapidly "correct" itself. However, to take such a view would be to ignore a range of factors that have and will tend to continue to depress home ownership levels. Many of these are woven into the changing pattern of economic and social existence and most will have effects on housing tenure that will operate over the longer term.

These factors include a decline in affordability and tightening of the mortgage market, changes to taxation, demographic changes and altered work patterns, high levels of personal debt, and inadequate provision for old age among a high proportion of the population.

While the future rate of decline in home ownership is impossible to predict, there is every reason to believe that home ownership levels will continue to decline and that the PRS (probably already the second-largest tenure in England) will continue to grow. An increasingly large proportion of households will be in effect excluded from the benefits (and the risks) of home ownership, and for these households wealth will be painstakingly acquired through personal saving rather than via a continuously rising housing market. It is not possible to offer a percentage figure at which home ownership levels might settle, but the possibility should be considered that this could be below 60% by 2025 and that the PRS could account for well over 20% of homes by 2020.

The above scenario poses a number of serious challenges for government which have implications way beyond the area of housing policy. These will be considered in the

139 CML statistics

following chapter of this report. The prospect of a continuing fall in owner-occupation levels poses serious questions for affordable housing providers too, and these will also be analysed later in the report.

Chapter 5

The challenge for government

The challenge for government

In the previous chapter, it was suggested that the drop in home ownership levels is not simply a blip but has been produced by a combination of factors that are embedded in aspects of social change and are mainly long-term. In that sense, what is being confronted is a trend that can be expected to continue, if other factors (such as sustained government action) do not intervene. This situation presents challenges for government that are much wider than simply updating housing policy.

As an asset, housing is intimately bound up with the provision of a range of services and care, and rising home ownership has allowed the state to withdraw from aspects of provision and to shift expenditure and responsibility to individuals. Home ownership levels have implications for the economy, too. Finally, the concept of home ownership has for many years chimed with popular aspiration and is seen by politicians as having links to social stability. It is to this series of challenges that one must now turn.

The housing policy dilemma: Constantine or Canute?

Perhaps the biggest question for government in terms of housing policy is whether the decline in home ownership is reversible. Like previous governments, the Coalition has pledged itself to increasing home ownership and to helping those on the margins to gain access. "The Age of Aspiration is back!" is how minister Grant Shapps put it.[140] He went on to add:

There are an estimated 1.4 million households who aspire to own a home but are unable to do so because of house prices and mortgage availability. There are hundreds of thousands of people in rented accommodation, or living with parents, who yearn to be first-time buyers. It is now true that the average age of first-time buyers (with no support from their family) is 37. Now that 37-year-old is not asking for a hand-out; they just want a chance. We need to give them that opportunity.

The commitment is clear – but is it realistic? There are two problems to be addressed here: one is the issue of tenure; the other is that of housing supply, which has exacerbated issues of affordability.

Analysis of the experience of previous governments across the 20th century suggests that government has generally acted in ways that reinforce or slow down an existing

140 Speech to Royal Institution of Chartered Surveyors, 11 June 2010 (www.communities.gov.uk/speeches/newsroom/ageaspiration)

trend in tenure change, as with the support for the building boom of the inter-war years or the various measures to promote access to mortgage finance during the post-war period. Ironically, one of the most effective government interventions in terms of tenure was the successive pieces of legislation that kept the PRS shackled by low rents and excessive security of tenure prior to 1988. Yet even here it is not clear that removing those restrictions would, on its own, have produced the renaissance of the past 20 years if other socioeconomic factors had not played their part.

One area in which government was successful was in creating the public/social rented sector by sustained direct intervention to ensure that large-scale public housing development took place from the 1920s through to the late 1970s. It is not clear, however, that any of the main parties are currently committed to the type of "tax and spend" approach that characterised that transformative effort. Yet such an effort may eventually prove unavoidable as part of the policy mix. Not only is there a desperate shortage of social rented property. Building public housing has, historically, been an effective way of boosting housing supply and hence affordability across all tenures.

Between 1948 and 1971, completions of public housing only dropped below 100,000 per year during four years.[141] In 2010, completions across all tenures were only around 102,000.[142] In these circumstances one does not have to be a Keynesian to see the value of a public housing programme in improving affordability and maintaining the capacity of the building industry. As this report has pointed out, public housing expenditure is now much lower as a proportion of total government expenditure than during the period before 1980. The government should consider whether the relative priority of housing within the totality of public spending is the right one, given the potential effects on housing supply (and indirect effects on economic growth).

As noted in earlier chapters, government has intervened decisively in certain other instances. The RTB and MITR are two examples. Almost any commentator would argue that these boosted home ownership significantly. In the case of RTB, the growth in home ownership was transformed from a diminishing trickle into a flood. However, analysis of RTB and MITR suggested that it was essentially an unrepeatable initiative. The conditions simply no longer pertain in which a reinvigorated RTB would produce the volume of sales of the 1980s, even if such a gesture would be politically acceptable.[143] MITR was curtailed and then abandoned because as more buyers benefited it became progressively more expensive, as well as difficult to justify on other grounds. It is hard

141 DCLG statistics
142 Ibid
143 King, op cit

to see the Coalition offering the scale of tax concession that would make a commensurate difference to MITR, given the need to cut the budget deficit.

Successive governments have been committed to LCHO measures, and the Coalition is no exception. However, as has been seen, LCHO efforts over a 30-year period from the early 1980s may have benefited the individuals who were enabled to purchase but achieved very little in terms of overall tenure change. Indeed, falling home ownership coincided with enhanced efforts to boost LCHO in the post-millennium period. Government may wish to pursue LCHO as offering a facility of benefit to some households such as key workers, where there are difficulties in attracting and retaining them (or as a way or creating cross-subsidy for affordable rented housing, where that is still viable), but it is not a tool for seriously altering the balance of tenures or altering fundamental trends in tenure. Since grant funding for LCHO is dropping and the new affordable housing regime appears unlikely to generate the level of LCHO construction seen in the period 2007-09, a change of thinking is probably inevitable.

Should government still consider that it wishes to promote LCHO for whatever reasons, then it could consider schemes to subsidise or underwrite high-LTV mortgages for lower earners or on an even more targeted basis. A range of such schemes were implemented by government in the period between 1950 and 1980. Though they were marginal in terms of overall impact, they did assist significant numbers of individuals. Such a scheme could make a real difference to the viability of the shared-ownership programme, for instance. The downside is of course finance. These schemes had limited life and were expensive in terms of actual cost or contingent liabilities incurred. Government has maintained only a limited involvement in the provision of equity loans, for similar reasons. Again, the issue is the relative financial priority that government wishes to put on housing policy.

As has already been seen, household formation is growing at a pace that means there will be a progressively worsening housing shortage unless something is done. The additional households are predominantly in two groups, for both of which home ownership is probably not, in the main, an option. These are single-person households and elderly households. The need to house the additional households should weigh heavily with government when considering tenure and the choice between LCHO and affordable (or even reasonably priced market) rent. The need for rented rather than owned property will pose real challenges for government in terms of affordable funding models and strategy from now onwards.

A further suggestion voiced more than once by the minister has been that affordability could be improved by the simple expedient of allowing house prices to fall against earnings for a significant period. Given that incomes are currently increasing more slowly than prices, this implies a significant drop in real terms. Grant Shapps may be right about medium prospects for prices; the Office for Budget Responsibility is predicting a fall of 2.7% over the next year.[144] However, this could replace one set of problems with another, as the following example illustrates.

A first-time buyer saves for a 20% deposit of £40,000 on a property at £200,000 bought with a £160,000 mortgage. Prices fall in real terms by 1% per year. For 25 years, the buyer maintains and updates the property and successfully pays off the mortgage. However, falling prices will by then have wiped out the value of the deposit, plus part of the repayments. Had the buyer obtained a mortgage with a smaller deposit, there would be a real risk of negative equity in the early years, potentially leaving them unable to remortgage or move. Many potential buyers might be discouraged by such a scenario.

Overall, it would seem that government must accept in practice that owner-occupation levels will continue to fall and, if it wishes to promote home ownership, do so as a way of housing certain sub-groups of households such as key workers rather than as a means to boost overall home ownership levels.

The PRS: a funding challenge

Unless government does not wish the PRS to grow further, then there is a challenge in ensuring that funding for new-build, repair and improvement to the sector can continue at the rate needed if those who cannot access either affordable/social renting or home ownership are to be adequately housed.

The funding of the PRS since 1988 has been overwhelmingly via BTL finance. By February 2011 there were 1.3 million BTL mortgages outstanding, with a total value of £152 billion. By way of comparison, this is over three times the level of private finance drawn down by the social rented sector over the same period. As already seen, however, BTL lending has fallen away dramatically. Though there has been an improvement in the value of new UK BTL loans in 2010 – a rise of 22% on the figure for 2009 – the volume is still dramatically down on the peak years and maximum LTVs are significantly lower, particularly for inexperienced landlords.

144 "House Prices Will Fall 2.7% in the Next Year, Says Office for Budget Responsibility" in *Daily Telegraph*, 4 April 2011 (www.telegraph.co.uk)

The Labour government launched its Private Rented Sector Initiative in 2008 to try to encourage institutional investment in the PRS, but in spite of much initial interest from investors the results have been rather limited; returns in the sector remain too low to attract investors without some form of subsidy. HM Treasury recognised the problem in a consultation paper *Investment in the UK Private Rented Sector* issued in February 2010.[145] Correctly, HM Treasury saw the problem not simply as one of providing funds for the PRS but as stimulating new housing supply. It was pointed out that BTL investment probably accounted for over a fifth of all new housing supply between 2004 and 2007.[146]

Arguably, therefore, government needs to promote funding for the PRS not simply to assist its development but to boost housing supply and hence affordability – including for owner-occupation. It appears that the recent Budget contains recognition of the need to promote funding. The Chancellor committed the government to dealing with the tax burden of stamp duty land tax in respect of bulk purchases of property and to examining ways of making the establishment of residential REITS more attractive.[147] These measures are, clearly, aimed at institutional investors and will be welcomed. However, it is not clear that on their own they will fill the gap in funding for the PRS, given the low rate of return from the perspective of institutional investors.

Whether further targeted tax concessions to both individual landlords and institutional investors are affordable and could be made effective should be urgently considered. Government should be wary of calls for improved security of tenure or further regulation of the PRS. The lessons of 1920-88 are that such measures carry a very high risk of stalling growth altogether. The Rugg review gave a relatively clean bill of health to the PRS in 2008.[148] Any intervention should only be at the fringes, to deal with genuine cases of abuse by landlords. Government appears to have already listened to this message and announced that there will be no additional regulation.

Chapter 4 of this report lists a number of socioeconomic fundamentals that are having an impact on home ownership levels and which have done so regardless of government housing policy to date. The factors include:

- affordability;
- availability of mortgage finance;

145 HM Treasury *Investment in the Private Rented Sector* (2010) (www.h-m.treasury.gov.uk)
146 Ibid
147 Budget, 2011
148 Rugg and Rhodes, op cit

- demographic factors;
- labour mobility and job security;
- high levels of personal debt;
- changes to taxation and welfare benefits; and
- poor provision for pensions and care in old age.

This list strongly suggests that to tackle falling home ownership effectively – even if it could be done – would require policies that went way beyond housing and spanned the breadth of government activity from welfare to employment, in order to address the causes of declining levels. Even accepting (as this report does) that a further fall in home ownership levels will not be averted, dealing with the consequences will require a response across Whitehall.

The economy

The Coalition is committed to rebalancing the economy in the interests of manufacturing and exports and has made it explicit that "the share of private and government consumption in the economy is expected to fall and the share of net trade and total investment to rise".[149] Public spending as a percentage of GDP is set to fall from 47% to 40% by 2015/16.[150]

It is beyond the scope of the report to settle the outstanding questions concerning the function within and impact of owner-occupation on the economy. Nevertheless, there are some observations to be made and questions raised. What is clear is that falling levels of home ownership cannot simply be ignored in the context of strategic economic planning.

At one level, at least, falling home ownership is complementary to the government's rebalancing of the economy. If rebalancing requires a more mobile and flexible labour force, able to move jobs easily and cheaply and with less of a burden placed on the state, then a combination of lower levels of owner-occupation and higher levels of private renting may serve the government's purposes well. The PRS is, as this report has noted, a more appropriate tenure for those liable to move frequently and who experience insecurity of employment.

In addition, if the intention of government policy is to divert resources from consumption to investment, then lower home ownership may actually work to its

149 Budget, 2011
150 Ibid

advantage. It has already been noted that there is a correlation between rising home equity and consumption, and possibly also a link with lower personal savings rates. However, it is not clear to what extent those unable to access home ownership on a permanent basis will in fact spend less and save more, particularly as they will tend to be at the lower end of the income scale; there is a debate to be had.

Some further major issues will require discussion:

- Would a contracting housing market be less prone to "bubbles", and if it were to be less volatile would this improve economic performance over the cycle?

- If less personal wealth were locked up in housing equity, would the result be a different pattern of saving that might benefit other sectors of the economy, such as manufacturing?

- Would the inability to access housing wealth or housing-related credit to meet unforeseen needs by a significant proportion of households lead to an excessive drop-off in consumption, leading in turn to chronic under-consumption? As already noted, housing equity withdrawal by home owners is currently negative (because debt is being repaid), which must itself have implications for consumption.

- How important is the multiplier effect of housing-related expenditure by home owners (from carpets to DIY) in maintaining the pace of economic growth?

The above issues will not be resolved here. However, government will have to resolve them if falling home ownership continues and if a healthy rebalanced economy is going to be built going forward.

Taxation

The shift from owner-occupation to private renting offers both opportunities and challenges to government. The government has, as this report has noted, already moved to lighten the burden of taxation on large landlords in relation to stamp duty land tax and REITS. A higher proportion of PRS properties ought to provide higher receipts for government from capital gains tax on residential property, since home owners are exempt on their primary residence.

Leaving the concession on bulk purchases aside, it is not clear whether stamp duty land tax receipts will be adversely affected by a shift towards the PRS. While the sector is growing rapidly, transaction volumes and hence receipts will be relatively high,

particularly while transaction volumes are relatively low in the owner-occupied sector. As the growth of the PRS eventually levels off, however, government will need to look at the situation carefully to assess the revenue implications.

An important discussion within any government committed to mitigating the fall in the level of home ownership would be whether to offer some targeted tax concession to assist marginal mortgage borrowers. Mortage Interest Tax Relief (MIRAS) at its peak was, as has been seen, disproportionately beneficial to those on high incomes and with large mortgages. It may be that a more modest subsidy (to use the forbidden term) at the standard rate of tax and/ or on smaller mortgages or for lower earners would provide real assistance. Nevertheless, MIRAS was expensive even at much curtailed rates. In 1999/2000, its last year before finally being phased out, its total cost was still £1.6 billion. This was equivalent to more than half the housing benefit bill for housing association tenants in the same year.[151] Subsidy of mortgage interest payments arguably also introduces market distortion, notably by pushing up prices. This is something government would have to consider carefully.

Welfare and service provision: a check on asset-based welfare?

At a point at which the Coalition is committed to reducing the public-sector deficit and hence to cutting public expenditure, the falling level of home ownership raises some awkward questions in the areas of welfare and service provision. The latest comprehensive spending review announced 19% cuts across all departments (apart from health and overseas aid) over a four-year period.[152]

As has already been noted, the UK, like many other developed countries, has moved in the direction of asset-based welfare. This works in two ways: firstly, provision of welfare or services by the state can be subsidised from the assets of the recipients of those services, which will in the majority of cases be housing assets. The second feature of asset-based welfare is that it can allow the state to retreat from the provision of some services altogether, on the basis that individuals can use their own assets. This has been seen as advantageous, given the economic uncertainties and perceived need to remain internationally competitive engendered by globalisation. As a recent study put it:

The same economic uncertainties have also placed pressure on welfare states across Europe, leading to reforms in social protection systems in most European countries.

151 Wilcox, op cit
152 HM Treasury spending review 2010 (hm-treasury.go.uk)

In particular there has been a tendency to scale back on universal public services funded via taxation towards placing greater responsibility and choice onto individual consumers. The growth of home ownership has been one aspect of this.[153]

If home ownership is to fall further and settle at a significantly lower level, as seems likely, then the asset-based model for welfare comes into question. While the majority of households may remain in home ownership, those that do not will be those on lower, less secure incomes and those with a range of financial, social and physical disabilities. These are precisely the groups who would traditionally be most likely to rely on state assistance unless housing assets provided a buffer. Thus the paradox of asset-based welfare – that those with the most assets need the least welfare – becomes sharpened. There will be a growing group of households who might in the past have aspired to home ownership but who are now unable to meet a range of needs that those higher up the income scale can meet for themselves and which those mainly on benefits may still obtain (to an extent at least) from the state under means-testing arrangements to determine eligibility.

The Resolution Foundation has done useful work analysing the position of what it defines as low-to-middle earners (LMEs).[154] These comprise 6 million households (32% of all households) with incomes between £12,000 and 30,000 per annum. They are contrasted with 3.3 million households described as "benefit reliant" and 9.4 million households described as "high earners". While 64% of LMEs are still home owners, they are clearly a group with increasing difficulties in maintaining their position. In 1977 some 28% of FTB properties were purchased by LMEs (who comprise 32% of households). By 2009 this had shrunk to 19%. It was calculated that an LME household saving 5% of weekly income would now take 45 years to save an amount equivalent to the average FTB deposit.[155]

LMEs are usually in work; economic activity rates are around 80%,[156] compared with a national rate for all groups of 77%.[157] Yet this is an increasingly hard-pressed group; since 1977 their disposable income has increased by only 57%, compared with 105% for high earners. Some 52% of LMEs have less than one month's income in savings, and 16% describe their unsecured debts as a "heavy burden".

153 Quilgars and Jones, op cit
154 Resolution Foundation, op cit
155 Ibid
156 Ibid
157 Labour market statistics, March 2011 bulletin (www.statistics.go.uk)

As home ownership levels fall among this group their vulnerability to the range of life's vicissitudes, from illness to unemployment, which is already statistically higher than for the majority, will grow, while access to housing equity as a buffer declines.

Catering for an increasing group of households that will be unable to access home ownership has implications across the spectrum of benefits and services, including:

- the relationship between the NHS and private healthcare, whereby a rising proportion of households cannot use the latter to fast-track care;
- cash and in-kind benefits for those in and out of work;
- pensions and elderly care;
- means-tested disability provision;
- aspects of civil legal aid; and
- access to higher education, where non-home owners will tend to have more difficulty in providing supplementary support to their student offspring.

The list could be much longer and more detailed, but it is not the function of this report to offer a blueprint for state provision. The aim is to identify the key challenges in the context of declining home ownership levels; provision of services and benefits is clearly one of them. Government should re-examine both the content of services and the way they are funded, in order to plan for increased need for assistance and reduced ability to pay among lower-income working households. If asset-based welfare becomes less effective, government may have to consider providing, and funding from taxation, services currently paid for wholly or partly by individuals. This in turn has both fiscal and economic implications. There are no easy decisions in these areas.

Managing aspirations and needs: the overall challenge

As has been demonstrated, the challenge for government spans almost the full range of domestic state activity and provision, from the economy to welfare. However, managing expectations and aspirations that have been enhanced by decades of rising home ownership and government encouragement will be as important. Those reminded of Quintin Hogg MP's famous 1943 advice to the House of Commons – "If you do not give the people social reform, they will give you social revolution" – are probably overexcited. This is not wartime, and one should in any case remember that until around 1970 the majority of households had no stake in property as home owners. Nevertheless, managing down expectations will be necessary if a further wave of popular disillusion with politicians and perhaps politics itself is not to be an outcome. References to the "Age of Aspiration" will be of no help here; promises to meet aspirations that are unlikely to be fulfilled will only make matters worse.

A key to managing expectations and to dealing responsibly with a new set of needs arising from the changing balance of tenures is to review government policy across the full spectrum, and this must include ensuring that there is an adequate supply of affordable, good-quality rented housing. As has been seen, in the area of economic performance falling home ownership may actually offer advantages in some respects, such as in terms of the mobility of labour.

The biggest issue, however, is that of meeting the needs of a growing proportion of households whose aspirations to home ownership have not been met and who will not have the ability to use housing equity to meet a range of needs. Responsible government has always acted to mitigate the negative consequences of social change; the present government should be no exception.

Chapter 6

The challenge for affordable housing providers

The challenge for affordable housing providers

As has been seen, the challenges posed for government by a continuing fall in the level of home ownership are serious and wide-ranging. The challenges for affordable housing providers – whether local authorities or HAs – are necessarily more circumscribed in scope but are strategically and organisationally no less challenging. The issues for affordable providers are focused around two main areas: firstly, tenure choice in terms of new development, and secondly, the problem of maintaining the level of new affordable housing supply within an increasingly difficult external environment.

This discussion will focus mainly on HAs, whose share of affordable development is still overwhelming, partly because of the limitations on local authority borrowing imposed by the prudential regime but also because it is not yet clear what level of development by local authorities under the National Affordable Housing Programme will take place, particularly as grant becomes scarcer.

Tenure: what to build and why

If the level of home ownership is to fall further over a protracted period, the question of the future status of LCHO versus other tenures cannot be avoided. As was noted in the previous chapter, home ownership is slowly moving out of the reach of those who traditionally benefited from shared ownership. The work of the Resolution Foundation and others has demonstrated that the proportion of home owners and FTBs among low-to-middle earners is falling.[158] This is not an unexpected outcome in a situation where home ownership levels are falling, since analysis of the key factors in this change (see chapter 4) would suggest that those with lower incomes and less secure lifestyles would be most affected at any one time. HCA data suggests that LCHO applicants typically purchase smaller properties. It also suggests that the average equity stake purchased by LCHO applicants has declined from 47% in 2005/06 to 37% in 2009/10.[159] Some 79% had a household income below £35,000.[160]

The dilemma for affordable providers is that LCHO sales may continue over time but the sales will be to a progressively more affluent client group. In a new world of greater housing market risk, lower grant and shorter-term borrowing, developers will not be able to risk creating a new mountain of unsold shared-ownership properties and/or repossessions. This will inevitably mean accepting that properties will, in the end, be

158 Resolution Foundation, op cit
159 Homes & Communities Agency figures, 2010
160 Ibid

sold to those who can afford them sustainably. This clearly involves selling to a more affluent client group.

It may also mean looking carefully at the type of properties that LCHO providers will build going forward. A number of HAs have tried to rein in the proportion of one- and two-bedroom flats built for LCHO, in the wake of widespread criticism of government for encouraging maximum sales revenue by building far more flats than the market could absorb in the period up to 2009.

The realisation that creating local market distortion could generate unacceptable financial risk has made many HAs more wary of using political imperatives to make financial decisions in a market. Nevertheless, the latest bidding round for a diminished level of grant has shown that the HCA is still focused on generating sales revenue for cross-subsidy, and that this creates strong pressure to maximise density. It is not clear how this dilemma will resolve itself in the short term. However, in the longer term, if HAs are to stay in a competitive buyers' market for LCHO, they may have to react rationally to the changing profile of home owners in terms of the type of homes developed.

Private developers, including Persimmon and Barratt, appear to have already recognised that they must reflect market preferences and have opted for lower-density, larger units. Persimmon chief executive Mike Farley has said: "What people want is a family home, with a garden and a driveway. A nice semi-detached with two bedrooms and not a high-rise block of flats."[161] The private sector is tailoring its product more closely to the market and in the process is substituting fewer, higher-value units for pure volume of units. This reflects a realisation that margins will be squeezed going forward and that completions and sales will remain at lower levels than previously the case. While demand will be more constrained, the market power of those able to purchase and sustain ownership of a home will be enhanced. HAs will have to consider to what extent their offers will also have to reflect the preferences of a changing customer profile. Moves to lower-density, car-friendly development would cut across a range of cherished environmental concerns widely shared across the sector, but in the end competitive constraints could prove stronger than considerations of social responsibility.

There are, of course, regional differences here in terms of affordability.

161 Farley, M "Conservative Revolution in House Building" in *Financial Times*, 5 January 2011

Figure 17: House purchase loans by number, value and affordability, for UK regions, Q4 2010

	Est'd number of loans	Percentage of UK total (%)	Est'd value of loans (£m)	Average age of borrower (median)	Average advance (mean) (£)	Average income of borrower (median) (£)	Average percent advance (median) (%)	Average income multiple (median)
Northern	5,200	4	547	36	90,000	34,942	75	2.69
Yorkshire & Humber	9,600	7	1,062	35	94,300	34,992	75	2.83
East Midlands	9,300	7	1,072	36	100,000	36,936	75	2.82
East Anglia	5,400	4	707	37	115,000	39,491	70	2.98
Greater London	17,000	13	3,813	34	187,500	56,402	70	3.41
South East	30,700	23	5,350	37	148,000	47,848	70	3.21
South West	12,200	9	1,657	38	120,995	40,012	69	3.10
West Midlands	10,200	8	1,222	36	102,495	36,097	74	2.97
North West	11,600	9	1,326	35	98,490	35,992	75	2.84
England	111,300	85	16,757	36	123,611	42,000	73	3.05
Wales	5,800	4	619	36	93,500	34,700	75	2.81
Scotland	11,000	8	1,258	36	97,843	37,178	73	2.73
Northern Ireland	2,200	2	218	33	91,473	30,526	75	3.02
UK	130,800	100	19,000	36	119,000	41,000	73	3.01

Source: CML

In London, where an average FTB deposit is over £50,000, where the income multiple for a loan is very high, and where borrower income is comparatively high, shared ownership will be in demand (and may still generate surplus sales revenue) but is much less likely to be accessed by those whom many HAs see themselves as committed to assist. Ironically, shared ownership is more accessible to those on lower incomes in much of the rest of the country but less financially attractive to HAs themselves. While

such regional variations do not change the overall trends in relation to LCHO, they do serve as a reminder that LCHO is and will remain more viable in some sub-markets than in others. Developers will need to take decisions on the basis of local market conditions as well as nationally identified trends.

All this raises serious questions about the purpose of LCHO activity: is it another way of assisting low earners? Is it primarily a way of generating a cross-subsidy for other development? Or is it simply a commercial activity that houses those who can afford to purchase its products? The above analysis strongly suggests that apart from the (problematic) cross-subsidy question, LCHO will increasingly have to be justified on non-traditional grounds such as a local need to house key workers or the need to promote mixed communities by bringing higher-income groups into a particular development.

The question of promoting mixed communities leads inevitably to a consideration of the role of market renting in HA development. Traditionally, market renting has been a temporary expedient for providers, in part due to regulatory constraints. Some commentators would further suggest that "regulatory paternalism" has led to HAs as well as local authorities being less customer-focused than private landlords. Certainly, data from the English Housing Survey suggests that tenant satisfaction is higher among private tenants than among tenants of social landlords in terms of satisfaction with their accommodation and with the way their landlords carry out repairs and maintenance.[162]

Since the downturn in the housing market, the need to deal with the backlog of unsold LCHO properties has led a number of landlords to enter the private rental market for the first time. As Derek Joseph and others have pointed out, HAs currently have higher management costs than corporate private landlords, and these will need to be controlled if HAs are to compete successfully.[163]

Assuming that registered providers can deal successfully with questions about tenant satisfaction and competition, then the PRS offers a number of opportunities to resolve tenure issues:

- It allows landlords to provide homes for lower-income working households who will be less likely to access LCHO going forward. This enables providers to

162 English Housing Survey 2008/09 (www.communities.gov.uk)
163 Joseph, D "RSL Staffing Costs in 2008/09: Inefficiencies Hamper Funding of New Social Housing" in *Social Housing*, March 2010

focus on a social group who need assistance, and traditionally have received it, but who are unlikely to find a home in the social or affordable rented sectors. This may not be a viable proposition in large parts of London, the South East and some other areas of high rental values.

- Developing properties for market renting facilitates the development of mixed communities.

- Market renting allows providers to operate in an area (the PRS) whose continued growth seems to be supported by the long-term socioeconomic fundamentals of tenure change. This has to be less risky in the longer term than operating at the vulnerable margin of a tenure (owner-occupation) that is likely to shrink further.

- There are financial advantages and opportunities to improve financial capacity relative to those offered by the affordable rent model.

As already noted, HM Treasury is well aware of the need for enhanced investment in the PRS from new sources, given the fall-off in buy-to-let investment caused by the banking crisis.[164] The recent Budget also provided evidence of a desire by government to promote such investment through concessions on REITS and stamp duty land tax.[165] Policy makers have also expressed interest in the Swedish ByggVesta model. This scheme offers a potential alternative route for gaining access to home ownership by developing small, highly energy-efficient flats that can be let at rents that allow tenants to save for a deposit over a period of up to 10 years, while still offering landlords an adequate return on investment.[166]

This arguably circumvents the need for LCHO, in a Swedish context at least. It is not clear that this will translate easily into an English context. The rate of return appears partly dependent on regulatory distortions in the Swedish market, and energy efficiency has less potential to generate savings in England than in most of Sweden. Nevertheless, the interest among UK policy makers does demonstrate an understanding that will assist the affordable sector in making a case for good-value market renting.

In terms of tenure, HAs will have to consider a more complex matrix. Hitherto, the choice has essentially been between social renting and LCHO, with the balance for new development largely determined by financial imperatives. The picture is changing,

164 HM Treasury, 2010
165 Budget 2011
166 See: "The Swedish Model" in *Inside Housing*, 8 April 2011

however. HAs will possess a large but shrinking block of social rented properties. Existing social tenants will presumably continue to exhibit similar behaviours, notably in terms of lack of mobility, particularly as there will be an incentive for individual tenants to maintain what is in many cases going to be an unrepeatable offer. Alongside these tenants will be those holding tenancies under the new affordable-rent regime, with fixed-term agreements and rents closer to those of the market rented sector.

By contrast, it seems likely that a number of landlords will try to ensure that new tenants (paying affordable rents) have the financial means to sustain, if necessary, a tenancy even in the face of further housing benefit cuts. They will also have more opportunity to move between the private and affordable sectors. These tenants could well exhibit behaviours and attitudes similar to those of private tenants. These might be noticed particularly in a desire to negotiate over matters relating to services, repairs and maintenance, a more demanding attitude to these provisions in terms of response and choice, and a greater willingness to exercise opportunities for mobility in and out of the affordable sector. This is potentially extremely significant. According to the English Housing Survey, only 8% of social renters currently stay in their home for less than one year and 62.6% stay for more than five years. By contrast, 36.5% of private renters stay for less than a year and only 21% stay five years or more.[167]

The challenge of accommodating successfully a more demanding and mobile tenant group and of competing with the private sector will be a major one for many HAs and one that they cannot avoid. If, as seems highly likely given the foregoing analysis, an increasing number of HAs choose to strengthen their involvement in market renting or to initiate their involvement, the challenge will be that much greater. Meeting that challenge will offer real opportunities to HAs:

- to become more customer-focused and better communicators;
- to become used to operating in the unregulated market sector; and
- to build mixed communities more effectively.

There will be those in the affordable sector or among housing commentators who react to the increased importance of market renting by calling for regulation of the PRS. The Chartered Institute of Housing in Scotland has already made such a call to the Scottish government, in the form of demands for registration of private letting agents and compulsory building reserve funds for private flats.[168] Such calls are misconceived.

167 English Housing Survey 2008/09 (www.communities.gov.uk)
168 Chartered Institute of Housing in Scotland *Our Asks for Housing* (2011) (www.cih.org/scotland/policy)

Essentially they would be allowing the affordable sector to duck the challenge of becoming competitive and client-focused by attempting to make the PRS more closely resemble the regulated sector. The affordable sector would ultimately be the loser. In any case, the UK government has turned its back firmly on further PRS regulation and is probably right to do so. Part of the ability of the PRS to respond to new housing needs and to be responsive in terms of service delivery is the existence of small landlords, as Rugg pointed out.[169] Small landlords are particularly likely to be discouraged by a forest of "red tape". Corporate landlords, whom government currently appears to be targeting as a focus for future investment, are more able to cope with the practical demands of regulation, but at the cost of a diminished rate of financial return. This report has drawn attention to the inexorable decline of the PRS through most of the 20th century, caused at least in part by excess regulation. Government would be perverse indeed to risk courting such a disaster a second time, when the PRS is the only tenure exhibiting significant growth.

The above presents some opportunities offered to HAs willing to take a strategic view of tenure and to engage proactively with market renting. There are no panaceas here, however. A static or falling supply of social rented housing plus affordable and market renting does not enable an HA to cover all those on lower incomes. The position will vary in different local market areas but there is likely to be a gap in terms of the offer to those who are working, including low-to-middle earners[170] as previously discussed. Ideally, these households would benefit from provision of an intermediate rental offer, perhaps along the lines of the London & Quadrant Up to You products.[171]

Unfortunately, for intermediate renting development to be financially viable there is usually a requirement for significant levels of grant or the expectation of an open-market sales receipt at a future date. Both these requirements make intermediate renting a problematic proposition for many HAs going forward, in the context of diminishing grant and declining home ownership. Nevertheless, it may prove viable in some specific locations, and in some cases may even be subsidised by market rental development (see below). Another group to be negatively affected by a move away from provision of social rented to a combination of market renting plus affordable renting where viable would be those who would have been housed in the social rented sector. While these may find accommodation in homes at affordable rents, the higher rents will inhibit their ability to seek work and move away from benefit dependency. This cuts across a key government intention in reforming housing benefit.

169 Rugg and Rhodes, op cit
170 For a discussion of LMEs, see chapter 5
171 www.lqgroup.org.uk

Affordable supply: a major challenge

At first sight, the supply issue in the affordable sector does not look discouraging. In 2009/10, the latest full year for which figures are available, affordable housing completions totalled 57,730 – a 4% increase over the previous year. This headline number disguises some disturbing facts, however. Of these completions, 51,140 were delivered with the help of HCA grant. The TSA has pointed out that HCA grant accounted for half of the increase in property gross book value for the sector – a situation that it warns will not be repeated.[172] Grant is being progressively cut back and replaced by the affordable-rent model, adding a layer of uncertainty about future provider behaviour. Section 106 nil-grant completions fell by almost half, to only 3,730. In addition, more than half of all affordable housing was delivered in three regions: London, the South East and the South West.[173]

When the completions data is drilled down further, LCHO supply is revealed to have fallen over the previous year by 4%, to 22,050 for 2009/10. This figure was, in turn boosted by a one-off contribution of 5,000 from the HomeBuy Direct scheme and over 5,300 from the Open Market HomeBuy scheme. New-build HomeBuy (shared-ownership) completions fell from 11,820 to 9,110 compared with the previous year. In addition, these figures include significant numbers of Rent to HomeBuy properties. There is widespread doubt as to whether a large proportion of these will ever make the transition to owner-occupation, given affordability constraints and the conservative mortgage market.[174]

The picture for 2010/11 is not encouraging. Housing starts by HAs began well in the first quarter, at 5,570, but have since fallen by 14% in the second quarter and by a further 20% in the third.

This picture provides a partial illustration of the strain under which the cross-subsidy model for affordable housing development has come since 2007. As government has become increasingly keen to squeeze more subsidy for social rental development from open-market sales revenue, the model has become increasingly problematic from an HA perspective. The unfolding situation has been described at length by this writer and others.[175]

In brief, the economic and housing market downturn in the wake of the banking crisis precipitated a situation in which potential shared-ownership purchasers were

172 Tenant Services Authority *Global Accounts 2010* (www.tenantservicesauthority.org)
173 DCLG statistics
174 Ibid
175 See: Heywood, op cit (2010)

unable or unwilling to translate aspiration into reality. The volume of sales fell and the prices achieved declined also. According to the TSA, around 10,000 homes were unsold in early 2009. In spite of vigorous efforts to deal with this backlog, including provision of grant for conversion to Rent to HomeBuy, there were still 3,817 unsold LCHO homes in December 2010.[176] There has been a progressive crumbling of confidence in the cross-subsidy model among HAs, now compounded by the knowledge that grant will not be available again to bail out HAs following a market downturn, in the way that the HCA was able to do from 2009.

Lack of confidence in the economic and housing market outlooks going forward have reinforced a desire to avoid over-exposure. The level of new debt taken on by the sector in 2009/10 was 40% lower than in 2008/09. Latest data suggests that new loan facilities arranged in 2010/11 are likely to be less than the already low figure for the previous year.[177] The coalition commitment to curb housing benefit and the likelihood that benefit may be paid direct to tenants, rather than to landlords as at present, has led to widespread fears of higher arrears and costs of rent collection, further undermining the risk appetite of associations. Unintended consequences such as loss of charitable status due to the workings of the affordable-rent regime have yet to be fully assessed.[178] This is not centrally an issue of lack of funding opportunities. While there is increased reluctance by lenders to offer long-term finance, the access to capital markets has improved and further opportunities to lever in institutional investment are being explored. The recent Centre for Housing & Planning Research report *Opportunities for Institutional Investment in Affordable Housing* is a case in point. The issue is the development model, not funding.[179]

Social Housing magazine has estimated that the total surplus from HA property sales almost halved to £270 million between 2007/08 and 2008/09.[180] According to the *2009 Global Accounts for Housing Associations*, this surplus on sales eroded from £336 million in 2008 to £241 million in 2009, with overall HA surpluses down by £116 million. The *Global Accounts 2010* observed that first-tranche shared-ownership sales surpluses had declined to £23 million – down 58% on 2009, with turnover decreasing by £72 million.[181]

176 Tenant Services Authority *Quarterly Survey of Housing Associations* (January 2011) (www.tenantservicesauthority.org)
177 Ibid
178 "Associations Face Losing Charity Status" in *Inside Housing*, 11 March 2011 (www.insidehousing.co.uk)
179 Williams, P, Salisbury, N and Craven, R *Opportunities for Institutional Investment in Affordable Housing* (Cambridge Centre for Housing & Planning Research, 2011) (www.chpr.landecon.cam.ac.uk)
180 "Sector's Asset Sales Surplus Halved as Shared Ownership Margins Tighten" in *Social Housing*, June 2010
181 *Global Accounts 2010*

According to the TSA, in April 2010: "Shared ownership development has decreased dramatically by over 50% nationally, meaning that cross subsidising general needs from shared ownership proceeds is effectively no longer anticipated."[182] This is not true for all associations in all areas. In parts of London, for instance, some HAs are still successfully marketing LCHO properties on a viable basis. Nevertheless, the TSA assessment is reasonable as a generalisation.

The situation has not been improved by the realisation that the affordable-rent model involving lower grant requires higher levels of up-front borrowing, which can squeeze loan covenants and financial capacity. The increasing unwillingness of banks to lend for terms in excess of five to 10 years has introduced a new level of refinancing risk also. In the Global Accounts 2011 the TSA gave another stark warning: "Further pressure on grant rates together with pressure on margins and decreased property cash flows could result in lower levels of development in future."

Even without consideration of the implications of falling home ownership, there are strong reasons to believe that development levels will fall going forward. In spite of optimistic reports that the Coalition could produce a record number of homes a year using the affordable-rent scheme,[183] anecdotal reports from the latest HCA grant-bidding round suggest a scaling back of volume and a willingness to cut back even further later if conditions do not justify building at levels previously agreed in order to secure grant. This has now been confirmed in a recent survey by Inside Housing magazine.[184]

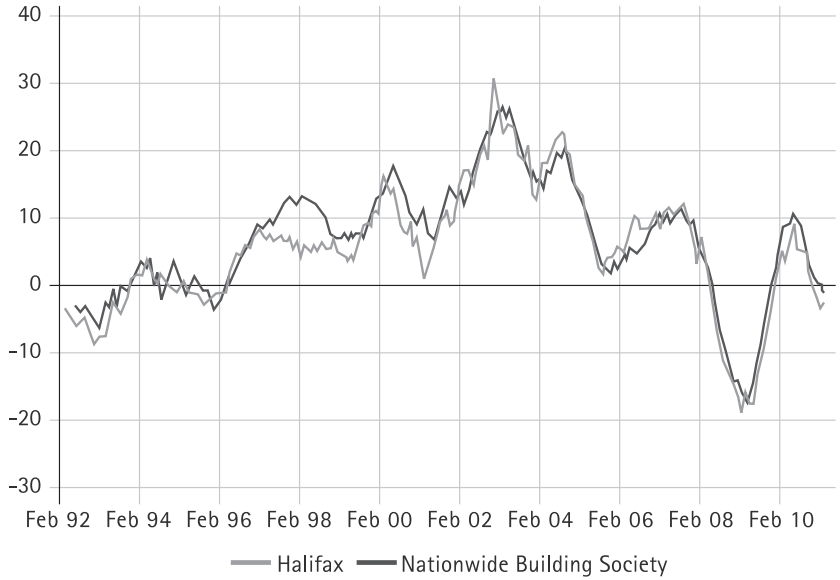
Falling levels of home ownership have so far not been identified as a causal factor in the recent problems besetting LCHO sales and the cross-subsidy model. Nevertheless, a gradual but sustained fall in owner-occupation must have an impact on the model in terms of demand for LCHO properties. As this report has noted, LCHO is the most vulnerable sub-sector of the housing market, given the key factors causing home ownership levels to decline. If LCHO sales continue to be targeted at the same income groups as previously, then there will be a progressive decline in demand. If LCHO is to be targeted at a more affluent client group, then other questions about purpose will have to be addressed and practical issues such as build type be tackled; the days of large-scale development of multi-storey flats may be numbered.

182 *Global Accounts 2009*
183 "Cameron Set to Beat House Building Record" in *Inside Housing*, 14 April 2011 (www.insidehousing.co.uk)
184 "New Build Levels Set to Plunge" in *Inside Housing*, 6 May 2011 (www.insidehousing.co.uk)

Price: the big issue

A key factor in assessing the future viability of cross-subsidy is the future trend in house prices.

Figure 18: Annual house price growth in England (%)



Source: CML

After a partial recovery of prices in 2009, it appears that the trend is now downward again, with the Office for Budget Responsibility predicting further falls in 2011. The March2011 index from the Land Registry shows a monthly fall of 1.1% and a fall over the previous year of 2.3%.[185] Housing minister Grant Shapps has posited the possibility that prices might continue to fall against earnings over a sustained period, thus eroding affordability constraints for many potential buyers and improving access to home ownership. Given that prices are rising faster than earnings at present, this implies real falls in prices. The minister may be correct, though long-term trends are notoriously difficult to predict. Falling home ownership levels over a prolonged period will inevitably alter the relation of supply and demand and thus will tend to imply lower prices than

185 Land Registry March 2011 price index (www.landregistry.gov.uk)

would otherwise have been the case. In this sense, falling home ownership levels will tend to have a softening impact on price over and above any other price effects due to economic or other conditions. However, it is not clear that LCHO, home ownership levels or the cross-subsidy model will necessarily be the beneficiaries of falling prices.

One of the key positive attributes of home ownership has been that prices have tended to rise in real terms over the long term. If this were not to be the case, then ownership would become distinctly less attractive to potential purchasers and more problematic to promote. The willingness of mortgage lenders to offer high-LTV and long mortgage terms would also be negatively affected. Thus falling prices could reduce demand rather than underpin it. Falling prices would also, clearly, have an impact on the viability of the cross-subsidy model. Intermediate rental schemes dependent on ultimate sale by the tenant would also be badly affected, since the incentive to purchase a property would diminish over time, and savings schemes linked to property values would be in jeopardy.

One possible impact of falling home ownership levels would be to increase the likelihood that prices would stagnate or fall, since a declining level of home ownership implies weaker demand going forward. This is an area that badly needs further research, as it has so far received little attention.

It would be rash to attempt to quantify the trend in house prices over the long term and beyond the scope of this report. Nevertheless, falling home ownership levels are likely to affect the prospects for LCHO in terms of both demand and price. The relationship between price, demand and open-market sales surpluses is a complex one, but it should not be ignored by HAs wishing to take proper account of the risks of future development and in making decisions about funding and tenure itself.

Towards a response: meeting the challenge of falling home ownership levels

As will already be clear, falling home ownership levels have implications for HAs (and potentially local authorities) in terms of decisions about which tenures are desirable to support and in what balance. The other main area is in terms of the implications for the scale and funding of new development.

In assessing their response to changing patterns of tenure HAs will, first of all, have to make sure that the issues surrounding owner-occupation and private renting levels are fully integrated into all strategy and business planning processes. It will not be sufficient to have a stimulating discussion on tenure at a board strategy day, if the

development committee models still have pre-existing assumptions about tenure and no assessment of the implications of change (such as possible downward pressure on prices for LCHO dwellings). At a time when HAs are already facing major challenges in relation to affordable rents and possible housing benefit changes, such an exercise may seem too long-term or too abstract to justify. Such thinking should be avoided; if current trends in tenure continue, the implications will be of growing significance.

LCHO

At first sight, falling levels of home ownership may be seen as implying that HAs should simply abandon LCHO activity. The picture is not so simple, however. As chapters 2 and 3 of this report have shown, tenure change evolves over extended periods of time and the effects on activity within particular tenures are not instant or total. There was, after all, significant investment by landlords in new PRS stock in the 1930s, in spite of an overall picture of decline.

As has been seen, LCHO activity remains viable in its own right in parts of London, the South East and other parts of the South. In London at least it is still capable of generating cross-subsidy. The customer profile will be altering in favour of more affluent purchasers, but the model is not universally broken in financial terms. Long-term trends suggest that the scale of viable LCHO activity will decline but this will not be instantaneous.

For HAs with a significant investment and experience of LCHO, the issue will be one of deciding the desirable direction of travel in terms of overall tenure balance and the socioeconomic profile of those client groups that it is considered desirable to assist. From such strategic thinking a business plan will emerge that may well continue to contain an element of LCHO. This should be based on a business case, however; the desire to secure declining levels of grant or to be supportive to the HCA should not lead to the taking of business decisions for non-business reasons, a phenomenon thatcharacterised many development decisions in the period up to 2009 and which necessitated widespread intervention by the regulator and by the HCA in the form of extra grant to beleaguered associations. If they are to trade successfully at the margins of a tenure in decline, HAs must be more attuned to demand and price and less to abstract equations involving grant and surplus sales revenue.

If LCHO will still have some place in the overall development mix, then reform to improve viability and attractiveness to clients should also be considered. The HCA has already overhauled the shared-ownership lease, offering lenders greater protection in the event of borrower default, among a number of improvements. Various potential

reforms could be looked at, but these should include the following two examples, which could still prove valuable in facilitating a continuing (if slowly declining) role for LCHO:

- The affordable sector has engaged in protracted negotiations with the Financial Services Authority (FSA) over the capital that lenders are required to hold on high-LTV shared-ownership loans. In spite of lenders being able to claim against the retained share of the property as well as the purchased share in the event of borrower default, a 100% loan to purchase a 50% share in a property still attracts the same capital requirements as a 100% loan on an entire property. This situation has contributed to the dearth of high-LTV loans for shared ownership at reasonable interest rates. The FSA has so far not yielded to persuasion, but there remain some cogent technical arguments as to why it might shift its stance. Though it is unlikely to halt fundamental trends militating against traditional LCHO activity, a lowering of lender capital requirements would make a real contribution in maintaining access to shared ownership to those on the margin, and thus aid both the financial and social purpose of shared ownership.

- It has long been recognised by those involved in shared ownership that there is a lack of a developed secondary market for shared-ownership properties. The Housing Corporation and others have noted the high proportion of initial purchasers who do not staircase to 100% ownership. According to the NHF, only just over 25% of shared owners become full owners.[186] Being a shared owner can be a mixed blessing, especially in a period of weak housing market demand and stagnant or falling prices. Buyers may find it hard to sell their property at what they hoped was its "real" value. Worse still, perhaps owners may find themselves trapped by negative equity or inability to find a purchaser. This can affect employment prospects and cut off a range of other personal options. Fear over lack of a secondary market is undoubtedly a significant deterrent to potential purchasers, though this would be an area worthy of further research. The affordable sector should consider whether resources should be deployed in the direction of developing a secondary market, perhaps by some online clearing house mechanism. In a period in which shared ownership is likely to come under pressure, alleviating a genuine impediment could make a real contribution towards ensuring continuing viability and customer satisfaction. The NHF and/or development partnerships may wish to consider this recommendation further.

186 National Housing Federation, op cit

It has been suggested that HAs committed to LCHO development might limit their risks in relation to falling house prices and low demand by hedging themselves against falling house prices. This could in theory be done via derivatives or spread betting. It is not clear that such a move (assuming there are deep enough derivative markets to take on the aggregate risks) would be a panacea. Ultimately, the cost of hedging rests on the likelihood of the event hedged against. It is much cheaper to hedge against a small risk than a near certainty. Thus if falling prices were seen as a medium- to long-term trend the cost of hedging would be in itself a significant financial burden to be set against the profits of development. While this option should not be ruled out, and hedging can have application in relation to specific schemes, it does not at first sight appear to transform the profitability of LCHO development as a whole.

The private rented sector: coming to grips

Changing tenure trends provide sound reasons for HAs and other affordable providers to invest in market renting in order to achieve mixed communities and to ensure that their activities are congruent with the expansion of private renting in general. Such investment will require attention to housing management costs, to ensure competitiveness with private landlords, and a greater cultural emphasis on customer focus as interaction with the private sector increases and even tenants under the affordable rent regime take on more of the characteristics of private tenants.

There are reasons to consider investment in market renting from the development/supply perspective also. Firstly, market renting (by definition) produces a higher gross return than affordable renting, based on the 80% of market rent formula. In addition, in the absence of regulation it offers at least the possibility that management costs can be contained at lower levels than for social/affordable renting. This is significant in terms of overall financial capacity and in terms of scheme payback periods. Nevertheless, it should be recognised that even the most efficient HA will be subject to the same low levels of rental return that have affected the propensity to invest of other corporate landlords. This is no panacea.

A related advantage of private renting is that the issue of disposal can be handled more flexibly because consent of the regulator is not required. This offers opportunities to capitalise on positive housing market trends or, conversely, to withdraw quickly from a failing market.

It has been suggested that in some areas there is at least the possibility that market renting might cross-subsidise affordable development. There are, for instance, parts of London where building properties for market renting at high rental values could

form part of a scheme involving affordable rents and moderate or even intermediate market rental values also. The need for a sales receipt from the latter might in some circumstances be obviated. Clearly, such a scheme is not going to be viable in large parts of the country, but it is arguable that LCHO is itself becoming a phenomenon of the South and East also. Nevertheless, it must be conceded that rental returns are in general too low for rental cross-subsidy to work as widely as LCHO has in the past.

It is clear that while investing in market renting is unlikely to fund the level of affordable supply that characterised the last years of the Labour government, it could make some contribution towards supply in itself and might in some areas even provide a surplus for some affordable development.

The affordable sector will need to make a case to the HCA and to government that market renting be considered acceptable to be pursued. At present the new regime around affordable renting focuses on affordable-rent housing and LCHO.[187] There are also regulatory issues around pledging social rented properties as security for funding for market rental development. Government and the HCA will need to be convinced that market renting has a valid place in the development mix and that including it can improve overall supply levels. Against a backdrop of LCHO activity that is likely increasingly to meet the needs of more affluent customer groups, it should be possible to make convincingly the case for including sensible value-for-money market-renting schemes as a means to create new supply, though acceptance by government in particular will be dependent at least in part on a broader willingness to accept the implications of falling home ownership levels. The NHF, the G15 Group and other representatives of the sector should engage with officials, ministers and the HCA where opportunities present themselves.

Falling levels of owner-occupation and the growth of the PRS pose real challenges for affordable housing providers, but also some opportunities. What is clear is that these emerging trends in tenure cannot be ignored. HAs can embrace market renting as a further dimension in the mix of tenures within their communities. As experienced landlords, they could even find themselves managing private rented property for other large landlords, including residential REITS if government concessions prove sufficient to kick-start their formation. HAs will need to enter into a dialogue with the HCA to ensure that they have an appropriate regulatory and investment framework to allow this. The sector should also sponsor further detailed research into the implications of tenure change across the range of their activities as landlords and developers.

187 MacGregor, F *Affordable Rent Practice Details* (HCA, 2010) (www.homesandcommunities.co.uk)

Realism needed

It appears almost inevitable that falling home ownership levels will exacerbate the already serious problems of ensuring an adequate supply of affordable housing. Falling home ownership will put further pressure on the already crumbling cross-subsidy model of development, in terms of demand and perhaps in terms of property prices. In the absence of drastic action by government to promote affordable housing on a financial scale closer to that of the public housing programmes of the 1950s and 1960s, it is difficult to see present levels of new affordable supply being maintained, let alone affordable suppliers going any significant way to making up the shortfall in overall housing supply.

In the end, if housing is to be available at sub-market rates, or if individuals are to be subsidised to facilitate access, then government must become involved; markets cannot and will not produce these outcomes. As already discussed, a combination of market renting, affordable renting and perhaps LCHO may offer financial viability on a modest scale of development but will leave a serious gap in provision, particularly for low-to-middle earners and for those on benefits who aspire to work.

Sadly, however, at the present time there is little reason to believe that this, or any government, is likely to commit to any strategy other than progressive withdrawal of support. In these circumstances, affordable providers must be realistic about development outcomes and focus to a greater extent on their core role as landlords as a measure of excellence.

Chapter 7

Conclusion – new paradigm, new strategies?

Conclusion – new paradigm, new strategies?

The underlying message of this report is clear. Levels of home ownership have been falling and the PRS has been growing. The latter has probably already overtaken social renting as the second-largest tenure in England. This is not an accidental and almost certainly not a temporary phenomenon. This situation poses major challenges for government across the range of its activities and in terms of managing down expectations. The challenge for affordable housing providers focuses on both achieving an appropriate balance of tenures and promoting mixed communities. Falling levels of home ownership also highlight and exacerbate existing problems with current funding models for new development. This is a new situation in which new paradigms are required to shape policy going forward, and in which those operating within this changing housing environment will need neßw strategies for success.

Standing at less than 15% of all tenures in 1914, home ownership had an apparently inexorable rise during most of the 20th century. Ownership levels peaked at over 70% around 2003 and have begun to decline. Tenure trends have been shown to be strongly linked to economic, financial, social and political factors, with government playing a significant though rarely a decisive role in generating and shaping those trends.

The causes of the decline are a complex set of often interrelating factors:

- Affordability has deteriorated over a long period, creating intergenerational effects, with increasing numbers of (young) first-time buyers failing to gain access to home ownership or relying on assistance from parents or other relatives with housing equity or savings.

- Following the banking crisis, the mortgage market has become more conservative. The market is unlikely to revert to the liberal lending practices of the recent past. The tightening of credit conditions will impact most strongly on the LCHO and first-time buyer markets.

- Demographic factors are moving in favour of renting rather than home ownership. These include a rising proportion of single-person and elderly households, increased immigration and outward migration, and changing work patterns involving less stability and more mobility.

- Personal indebtedness rose rapidly in the period prior to the banking crisis. Personal debt currently stands at around £1.45 trillion. Student debt will increase rapidly, as could mortgage arrears. The result could be higher rates of possessions, should the economy and employment levels deteriorate.

- The huge fiscal incentive for home owners represented by MITR had been removed by 2000, and the tax system is moving in favour of landlords rather than owner-occupiers.

- Poor pension provision, increased longevity and the need to fund personal care in old age due to asset-based welfare policies will cause disinvestment in the housing market among the older age groups.

These factors are not going to disappear, and there is therefore no reason to believe that current trends will not continue, leading to a significant shift in tenure balance over the next 20 years.

The challenge for government

Housing policy
This report suggests that government rarely manages to buck fundamental trends in housing tenure, though it can speed up or retard those trends. Where government action has been decisive in shifting the balance of tenures, it has involved a very large financial commitment in the form of direct intervention, such as the public housing programmes of the post-war period or incentives such as MITR. RTB was essentially a once-only initiative and is probably unrepeatable. Thirty years of LCHO activity have assisted significant numbers of individuals but made very little difference to the overall level of home ownership.

Government must be prepared to be realistic about its own limitations in the field of housing policy, whether self-imposed or inherent. New paradigms to shape policy will be needed. It is most important that the present government assesses whether its commitment to further extend home ownership is in fact realistic in the face of current trends. This report suggests that it is not, unless government is prepared to invest at levels that it would not find politically acceptable. In these circumstances, government must find a way to manage down popular aspirations to attain home ownership if widespread disillusion is to be avoided.

The second major challenge for government is to facilitate funding of an expanding

PRS. Buy-to-let lending has slumped in the wake of the recession and is unlikely to attain previous levels in the foreseeable future. There is therefore an urgent need to bring in institutional investment and expand the corporate landlord sector. Government has recently made tentative moves in this direction, but much more needs to be done to offer larger landlords a rate of return that will attract the required investment.

The third major challenge for government is to improve the supply of housing from present catastrophic levels. New models are needed in the affordable sector that do not rely on surplus revenues from open-market sales. Government has not really begun to grapple with this issue yet. In terms of overall supply, it appears that owner-occupation alone will not drive previous volumes of new housing. Investment in the PRS may not be sufficient either. Post-war governments invested directly in the housing market by promoting programmes of public housing on a scale many times larger than anything undertaken during the past 30 years. It does not appear that this level of investment would be contemplated by any of the political parties at the present time.

Implications for other government policies

High and rising levels of owner-occupation are an assumption embedded in policies across the spectrum of government activity. If levels are to continue to fall, government must examine the implications for the economy in terms of investment and consumer spending. Welfare provision has been increasingly predicated on assumptions about the ability of individual households to fund life's contingencies, their service provision and care from their own resources. In practice this has involved drawing on housing equity. If home ownership levels continue to fall, then many of those on lower or less secure incomes will be increasingly reliant on the state to provide that support. This calls into question the moves in the direction of asset-based welfare of the past 30 years. Are we moving back to the era of "tax and spend"?

Responsible governments have always acted to mitigate the effects of social change that has become inevitable. This government should be prepared to enter dialogue with all stakeholders in order to assess the profound implications of a shift in the balance of tenures and to arrive at new social paradigms to drive new policy approaches. Most citizens would welcome the opportunity to live in an "age of aspiration". However, few would argue with the assertion that aspiration infinitely deferred is a wearying blind alley.

The challenge for affordable housing providers

In spite of being large corporate landlords themselves, affordable housing providers have bowed to government pressure to part-fund new affordable housing development

through revenues from open-market sales and have been persuaded that development involving a substantial component of LCHO fulfils a social purpose as well as a financial one.

This report suggests that falling home ownership levels raise serious questions over LCHO activity as at present conceived. If those groups who have traditionally gained access to shared ownership are progressively displaced by more affluent customers, then providers will not only be failing to offer a stake in the housing market to their traditional clientele but will be failing to offer that clientele anything at all.

LCHO activity will need to be supplemented by an active engagement in market renting in order to offer options to those for whom home ownership is no longer attainable and to foster mixed communities. There is likely to be a negative impact on intermediate rental schemes, requiring a delayed sales receipt to secure viability in spite of the desirability of offering rental products between affordable and social rental levels. Engaging with market renting will involve greater attention to housing management costs and to customer focus. Even without an expansion in market renting, affordable rent tenants are likely to interact more with the PRS and to resemble those tenants rather than traditional social tenants.

The issue of affordable housing supply remains intractable, and falling levels of home ownership can only put more pressure on an already crumbling cross-subsidy funding model. Build for rent may offer some alternative subsidy, but only in some areas, and there will be regulatory and policy obstacles to be overcome with government and agencies. The problem of a low return on investment in market renting will be as real for registered providers as for private landlords and will inevitably constrain their ability to borrow funds or raise capital to fund future development of this tenure.

It is clear that in the absence of a much higher level of support from government and/or effective measures to promote a better return on investment in market renting, affordable housing completions will reduce once developments in the pipeline have worked their way through.

The affordable sector needs to have an internal dialogue. Traditionally, its attitude to the PRS and to market renting has been negative. This needs to change. Development of good-quality homes for rent may be a key route to assisting those on low and low-to-middle incomes. Tenant satisfaction levels in the PRS continue to outstrip those in the social rented sector. The sector also needs a new development strategy, but this cannot be developed in isolation from other stakeholders.

Collectively the affordable sector should also engage in dialogue with the HCA, the TSA and with government. With the possible exception of the TSA, these bodies have as yet not decoupled their thinking from the focus on home ownership as a central plank in their strategies. Because of their unique position as facilitators of public policy, affordable providers are in a position to stimulate debate that agencies may find it hard to initiate and which government may wish to postpone for political reasons.

Towards a new social vision

For 30 years or more, the vision of the property-owning democracy has prevailed. It is a vision in which rising levels of home ownership coupled with appreciating asset values offer a route to individual prosperity, a reduced role for the state and increased individual responsibility for dealing with life's vicissitudes. It simultaneously promotes social cohesion while offering a less "collective" social culture.

This is a vision that has been popular and which has, during a sustained economic upswing, fostered improving prosperity and financial security for some.

The central plank supporting that vision – rising levels of home ownership – must now come under scrutiny, and with it the vision itself. This is not to argue against home ownership, but it is to recognise that, like all historical phenomena, owner-occupation levels are not fixed but alter – as underlying social and economic factors themselves develop.

In considering a strategic response to what could prove a continuing shift in the balance of tenures, the issue of an alternative social vision will therefore inevitably be raised. Such a vision will have to encompass the role of the state, the funding of welfare, and the relationship between housing tenure and the culture of citizenship. It will involve developing new concepts, but it will also involve a clear-sighted application of those new concepts across the full breadth of public policy formation.

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