

How can we make the housing market more stable for vulnerable households?

Viewpoint
Informing debate

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In July 2009, the Joseph Rowntree Foundation established a taskforce to address the root causes of instability in the UK housing market. Whether in a boom or a downturn, the shortage of affordable housing hits the most vulnerable households first and worst.

These *Viewpoints* – commissioned as part of the programme and aimed at stimulating debate – provide two different perspectives on the kinds of reforms needed to provide long-term, secure housing for those least able to afford it.

Matthew Taylor, Chief Executive of the Royal Society for the encouragement of Arts, Manufactures and Commerce (RSA), argues that the UK's 'obsession with home-ownership' creates social and economic divisions and instability. We need a more balanced approach to different kinds of tenure. To meet demand, this will mean revamping the private rented sector.

“We should see our homes as places to live, not a get-rich-quick scheme.”

Philippa Stroud, co-founder and Executive Director of the Centre for Social Justice and formerly Director of the Conservative Party's Social Justice Policy Group, believes that life tenancies and the benefits system have combined to create social immobility, worklessness and dependency. Social housing should be the first step on the ladder to home ownership, and housing and other benefits should be reformed to encourage claimants back into work.

“We need to see social housing as a means to a better life for adults and their children, not a destination.”



To rent or to buy: time for a more balanced approach to tenure

It is time to abandon the assumption that higher levels of home-ownership are good for society. Reasons ranging from asset inequality to labour market flexibility call this assumption into question. We need a more balanced approach that encourages people to make pragmatic decisions about whether to rent or buy. An important element of encouraging this new way of thinking, for government and for householders, will be the emergence of a larger, more ambitious, intelligently regulated private rented sector.

Is more ownership a good thing?

There seems to be no surer sign of things going back to normal as we emerge from economic recession than the news that house prices are potentially returning to their pre-credit crunch high. Home-ownership is beginning to again look like a good investment, one to which every family should aspire. Yet there are many reasons to question the assumption that more ownership is a good thing. It is time to aim for a more balanced approach to tenure.

The rise and rise in home-ownership seems to be taken for granted as part of modern society. All the political parties sign up to making it easier for people to own. Yet, having risen rapidly from 57 per cent of households in 1981, the rate of home-ownership in the UK peaked at just less than 71 per cent in 2003. Over the next five years, it fell to just over 68 per cent – the first significant drop since the Second World War. Rather than moving towards Gordon Brown's 2005 Pre-Budget Report target of three-quarters of homes being owner occupied, we are actually moving away from it.¹

House prices and ownership fuel inequality

Decades of boom and bust housing inflation have led to massively increased social and inter-generational inequality. Inequality in asset ownership has increased even faster than income inequality.² Now, with mortgages much harder to come by, low-paid people are locked out of ownership entirely. Even middle-income earners can only afford a deposit if their asset-owning family can provide a nest egg. As one commentator has pointed out, "if the average earner puts aside 5 per cent

of take home pay it would take 35 years to save enough for a deposit on the average home."³

It is not just those who cannot buy who lose out. In each property price cycle, some buyers make a killing while others lose out by jumping into the market at the wrong time. The assumption that prices would keep on rising encouraged many families to remortgage and take on other debts. Although, current repossession rates are lower than those in the late 1980s recession, with high unemployment, any increase in interest rates could drive the rate up. It can take families many years to recover from losing their home.

The Right to Buy was a huge political success for the Conservatives. Millions bought their council homes, but many local authorities are now having to deal with families who cannot afford their share of essential repairs and renovations on their blocks of flats. Local government minister Ian Austin reported recently that 6 per cent of London ex-local authority leaseholders have been presented with bills of more than £10,000.⁴

An obsession with home-ownership is bad for the environment. Millions live in inadequate housing in the UK, but there are also a million empty homes. Some are held empty by developers, while others are the second homes of the well-off. Many millions more are half empty as people hoard space assuming it is bound, in the end, to be a good investment.

We assume that a pickup in the housing market is a sign of economic buoyancy. But rising levels of home-ownership aren't necessarily good for growth. A decade ago, Warwick-based economist Professor Andrew Oswald argued that by increasing the costs of moving, high home-ownership levels reduce labour mobility and thus increase underlying unemployment levels. These findings have since been confirmed by research in the Netherlands.⁵

I am not arguing that policy should seek to put obstacles in the way of ownership. There are good, pragmatic reasons for people to want to own. Because house price inflation has run well in excess of the rest of the economy, home-ownership has provided good returns for most owners. Paying off a mortgage before or at retirement provides families with a cushion for the move from wage earner to pensioner. But ownership is also an inflexible form of investment for the individual and an unproductive one for the economy.

Home-owners have greater control over their property and they may have reason to feel more house-proud. However, the correlation between home-ownership and good outcomes, for example, in community engagement and educational attainment, is hard to separate from other household characteristics (Rohe et al, 2001). We should be aiming for parity of esteem between tenures.

If the idea of parity between tenure types seems impossible, think back to the 1950s when property prices were stagnant, millions more rented, and the chances of social mobility for council housing tenants were roughly as good as owners. It is only over recent decades that living in private rented and social housing has become so closely linked in the public mind with poor life chances.

Recent experience in the United States shows that, even where there is no shortage of housing, families and investors can be lured into thinking that ownership is a one-way ticket to accumulation – with disastrous consequences. But the underlying long-term driver of house price inflation in the UK continues to be demand outstripping supply. The combination of a tightening of credit availability and a squeeze on public investment may make the situation worse. The National Housing Federation has said that, on present trends, the Government's aim of 3 million extra homes built by 2020 is already nearly a decade off target.⁶

Bridging the gap

It is vital that investment in social housing is protected and if possible increased, despite the coming squeeze on public sector capital expenditure. To tackle the blighting of many social housing estates, it is also important that funding continues for the Housing Market Renewal Pathfinders, recently given a positive appraisal by the Audit Commission.⁷ These measures are particularly important to the life chances of the least well off. But, in most sectors of the population, social housing – precisely because it will for the foreseeable future be preserved for the most disadvantaged – is unlikely to challenge ownership as an aspirational tenure. Instead, the key to bridging the gulf in life chances between home-owners and renters, and to promoting a more pragmatic social attitude to tenure is to develop a bigger, more dynamic private rented sector.

Transforming the private rented sector

After falling for 40 years after the war, the private rented sector has grown steadily over the last decade. With inadequate supply of both social housing and affordable

new housing to buy, whether we like it or not the sector is going to be more significant. The question is whether and how we try to influence that growth. There are two overarching challenges: to maintain growth in the sector while improving quality; and to encourage greater investment, especially in new build so that the sector's expansion helps to tackle the problem of supply.

A 2008 government-sponsored review⁸ showed how complex the sector is, comprising sub-sectors ranging from luxury property for business people to low-quality provision for asylum seekers and housing benefit claimants. Indeed, it is the flexibility of the sector that is its greatest strength and the reason for its recent expansion. The Government welcomed the review and has undertaken a consultation over a series of measures proposed by its authors to improve the regulation and oversight of the sector. These steps, if they get the balance right between improving quality through regulation and maintaining flexibility of the sector, may meet the first challenge.

But if we are to see major new build of property destined for long-term private rental, new investment models will need to be developed. The rapid growth of private rented accommodation designed for the needs of students is based on the predictability of demand as student numbers rise. Also, some local authorities have increased the supply of private accommodation for eligible homeless families by guaranteed rental income to landlords, even if the property is unoccupied. The latter may be an expensive sticking-plaster solution, but it points to the importance of underwriting rental flows to encourage new investment and entry into the sector. This is why the Homes and Communities Agency Private Rental Sector initiative, launched in May 2009, is to be praised. The signs so far are good, with many investors attracted by a possibility of rental incomes being under-written and a fast track to planning permission and public land.

Investment in high standards

Attractive new build could make a big difference, not just to the capacity but also the image of the sector. Bringing in major new investors should address the trend over recent years for more of the sector to be taken up by small landlords letting on a short-term fixed basis. The type of houses and flats that are built will also be important. The recent growth in the sector tended to be in buy-to-let properties, usually aimed at individuals and couples. A more ambitious private rental sector strategy should seek to encourage investment in the types of private rented stock society needs.

For a start, this should mean well-designed, family homes with the highest environmental standards. Too much of the inner-city new build of the last two decades was badly designed and badly built. If private investors are to be helped into the rental market, they should also be encouraged to invest in homes built to last.

On tenancies there should be incentives for landlords to commit to longer-term leases of three or five years with index linked rents. To promote mixed-tenure developments, a proportion of properties might be available on a rent-to-buy basis. Even if landlords do not wish to sell, rent could also include an element that builds to a redeemable stake in the value of the property (thus encouraging tenants to look after it).

The best new student accommodation, although out of reach of poorer students, boasts attractive shared facilities like fast-speed broadband and gyms. Reasonably priced facilities like these could make the private rented sector more attractive than owner occupation to some groups. With an ageing population, it is also important for new properties to be designed so that they can be easily adapted if residents suffer from reduced mobility. High-quality, purpose-built rented accommodation, perhaps with reasonably priced guest accommodation also available, can provide a better alternative for older people than trying to manage in a house that is too big and too far from their families. It is also important that standards of housing and estate management are high, something which should be easier to achieve in larger developments.

Although home-ownership has in recent decades risen across the developed world, few countries are quite as unhealthily obsessed with it as we are. The United States is certainly regretting its bid to widen ownership to people on low incomes. Surveys, such as that by the Joint Center for Housing Studies of Harvard University,⁹ have found that many renters, while happy with their current homes, feel they are not full citizens until they own, a perception continually reinforced by the media, politicians and advertisers. The key is better quality rented accommodation, but the sector could also do with a makeover. Some time ago, advertising agencies were invited to make renting sexy. One idea was a hoarding: "My old man's a designer, he lives in a council flat, he wears Armani trousers and shops at Habitat."

One other move would help make housing tenure a matter of pragmatism and convenience rather than a cause of anxiety and social segregation. As part of its strategy to avoid another crisis on the scale of the 2008 credit crunch, the Government and the Bank of England should make clear their long-term intention to act decisively to deflate any future housing bubble. With an under supply of housing likely for many years, government will not easily be able to defy the laws of supply and demand to stop house prices outstripping

general inflation. But, as the market picks up, we must avoid a return to prices increasing by double digit percentages year on year. We should see our homes as places to live, not a get-rich-quick scheme.

Matthew Taylor

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The RSA is a charity that encourages the development of a principled, prosperous society and the release of human potential.
www.thersa.org

Notes

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Social housing: a launchpad, not a destination

The problems of social housing extend beyond the problems of supply and demand, into the very character of life on our estates. This has changed markedly over the years. We need to see social housing as a means to a better life for adults and their children, not as a destination. We argue that there needs to be greater matching of available and planned stock to the demand; but that this should be locally controlled with greater discretion over allocation and tenancy. Housing policy can foster aspiration and positive behaviour through ownership schemes, which also give people a capital asset. Transformation of housing estates is also dependent on the reform of the benefits system. Finally, in addressing the problems of those in social housing, we should not ignore the problems facing those in other types of tenure.

“As a society we must radically revise our expectations of what social housing can achieve.”
Iain Duncan Smith¹

Future policy-makers need to pay attention to the quality of life in social housing, and ensure that housing policy does not entrench disadvantage. It is not enough simply to make sure that there are enough houses; we need to look at what life is like for residents.

The social characteristics of social housing give cause for concern. Over 25 per cent of those living on flatted estates are dissatisfied with their neighbourhoods, compared with 8 per cent of owner occupiers.² Nearly 25 per cent of social housing is in areas with poor environments. Over 20 per cent of residents report the presence of drug dealers and users.³ According to the more general measure of ‘deprivation’, which includes crime rates and health data, almost half of the stock of local authority estates falls in the category of the 20 per cent most deprived neighbourhoods in the country.⁴

It is important to recognise that the character of social housing was once very different. Stock that was designed for working families is now in a significant part used for unemployed and young single people. Less than half of working-age social tenants are employed, and barely a third are in full-time employment.⁵ From 2004/05 to 2006/07, 42 per cent of households moving into social housing were one person households; 22 per cent were lone parents. New social tenants tend to be young: 24 per cent were aged 16–24 and a further 24 per cent were aged 25–34.⁶

As a result, the income disparity between social housing tenants and the national average has sharpened. In the early 1980s, council tenants’ average income was 73 per cent of the national average. Today, over two-thirds of social tenants have incomes in the bottom 40 per cent.⁷

Housing policy is itself partially responsible for this situation. Future housing planners must look very closely at the effect of policy on the character of estates and the hopes and aspirations of those who live on them. The purpose of housing policy is not only to house people. It is to allow people to develop and improve life for themselves and their children. Housing is a human essential, but there is something wrong when housing policy starts to hamper social mobility and stifle opportunity. Housing policy faces some key challenges. In our report, *Housing Poverty: From Social Breakdown to Social Mobility*, the Centre for Social Justice has proposed answers to these challenges, which are summarised below.

Key issues

Housing policy must address:

- centralised control over supply and the allocation of existing stock;
- the creation of undesirable incentives;
- the entrenching of unemployment;
- the availability of support services to those in need who are not in social housing.

Supply and allocation

There is currently a waiting list for social housing approaching 5 million individuals – 2 million households⁸ – yet there are no coherent plans to increase building. In the current economic climate, mass building by the state seems even less likely. The high waiting list suggests that there is a problem of affordability across all tenures – including private rentals and first-time buyers – at the lower end of the market.

Housing at the lower end of the market – not just in the social sector – is expensive. The unaffordability of housing for the poorest people and first-time buyers – measured as the ratio of lower quartile earnings to lower quartile house prices – has nearly doubled over the past decade.⁹ This will have a knock-on effect on rental prices at these levels.

The shortage has also had a significant effect on the character of housing estates. What has been called the ‘sorting in’ of the most vulnerable is partly the result of the diminishing supply of such homes, which led to the imposition of strict ‘needs-based’ criteria for entry. The number of homes rented from councils and housing associations fell from a peak of 5.5 million in 1981 to 3.8 million in 2007.¹⁰ The Right-to-Buy policies of the 1980s were popular but reduced the supply of council housing. The resulting shortage has been exacerbated by major reductions in new building.

The shortage of both affordable and social housing needs to be addressed if we are to change the character of estates. However, at the Centre for Social Justice, we question the heavily centralised control over house building and allocation. If we consider the provision of housing as a means to build stronger communities, then central planning rarely captures the particular aspects of local life that lead to the geographical concentration of social problems. More often, it makes the mistake of applying one model to the whole country.

Expanding the supply and affordability of private rental sector housing will reduce demand for social housing. While the property bubble led to an increase in the number of private landlords investing, our research suggests the ‘affordable homes requirements’ – whereby institutional developers had to mark out a proportion of homes for the social sector – actually reduced supply from institutional developers.

As much as a need to build new homes suitable in the correct mix for families and single people, stock must also be assigned correctly. It makes little sense for a three-bedroom house, which used to house six people, to be used to house a couple when there is a six-person family on the waiting list living in overcrowded accommodation. Without some reform to lifelong tenancies, councils are hamstrung in their use of housing stock.

Realigning incentives

Ownership is a key part of the fight against poverty and an aspiration for the very poorest members of our society. People are more likely to make improvements if they own or have a stake in their homes. Home ownership also gives the owner a capital asset. But the inherent security of social housing and the rules on tenure create an inertia that militates against change.

Entrenching worklessness

Worklessness is now a widespread phenomenon on our housing estates. In our recent *Dynamic Benefits* report, we argued that the benefits system makes it not worthwhile to take a job.¹¹ Put simply, the cumulative withdrawal of benefits as claimants start working is so quick that a person is not much better off in work than out of work.

Housing benefit is particularly troublesome in this regard, partly because of its 65 per cent post-tax withdrawal, and partly because of its interaction with the working tax credit. Many claimants think they are not entitled to housing benefit if they take a job. Many have also suddenly found themselves in arrears because a change in tax credit eligibility has led to claims for overpaid housing benefit. Many claimants reasonably think “Why bother?”

Solving the problems of our housing estates requires solving the problems of the benefits system.

Welfare of all, not just social housing tenants

Only a relatively small proportion of older people and those with significant disabilities live in social housing.¹² Many vulnerable people in these groups are owner occupiers and, because of the current housing allocation rules, some of the most vulnerable live in private rented homes. Local authorities are far more likely to carry out needs assessments for people living in social housing than for people in other tenures. They often view council tenants as aggregations of the most needy. Many provide a range of support services to older and disabled people living in council housing which is much more generous than that provided to people living in private rented accommodation or in homes they own.

More broadly, currently housing benefit is not available to help with mortgage interest payments, as it is in many other European countries, even if the household income is low.

We believe that it is quite wrong that housing tenure should be a significant determinant of the level of support that people receive.

Proposals

The four key problems identified above were addressed in our 2008 report, *Housing Poverty: From Social Breakdown to Social Mobility*.¹³ The work of the Centre for Social Justice focuses on identifying and combating the root causes of poverty. We call these the five 'pathways': family breakdown; educational failure; alcohol and drug addictions; economic dependency; and serious personal debt. The pathways not only entail a poorer quality of life, but also make the escape from financial poverty more difficult for adults and their children. To address these, we have made the following proposals.

Better use of resources

Ensuring that there are homes for those who need them need not require a great deal of expensive new building by councils. There are about 700,000 empty homes in England alone.¹⁴ We would like to see more effort put into bringing these houses back into use. We have therefore suggested reducing the rate of VAT on renovations and repairs as a means to get private individuals and companies to renovate, not rebuild. We have also suggested that councils keep asset management strategies for their social housing stock.

The size of the private rented sector needs to expand significantly. One way of encouraging this is to end the affordable homes requirement for new developments, insisting instead that new developers pay councils a levy that can be used for social support – if necessary to buy or rent suitable properties.

Councils should be free to decide their allocations policy. They are best placed to assess the housing needs of their local population, as well as the particular form it should take. As long as councils meet their obligations towards the most vulnerable people, they should be free to develop housing that fits the needs of their area and determine their own allocation policy.

Social housing should continue to be used to meet a great range of needs. But, wherever possible, for shorter periods of time – to help people in a crisis, in overcoming homelessness or as they take their first step on the housing ladder. It should be a dynamic resource, helping people to get on their feet and on with their lives. It should be a temporary home, before private renting, moving on when possible to shared equity, or to outright ownership. This should be the normal path to self sufficiency for the vast majority. Help with housing costs is necessary, but a permanent social tenancy is not.

Encouraging aspiration

Allocation and tenure reform have the potential to transform the social make-up of housing estates and reduce tenants' sense of dependency. It can also be an incentive for positive behaviour.

We think shared asset ownership schemes should be encouraged. We want a future government to do more to help shared equity and low-cost home-ownership schemes take off.

But there is even more radical action that is available. Our research shows that people who live in social housing still aspire to own their own homes. Why not also use the power of government to revive that hope? Those who act as good neighbours and responsible tenants should receive a share or equity stake in their home. This will be a great encouragement for many, and will also motivate people to take care of what is now *their* property.

Housing benefit and work

The key proposals in *Dynamic Benefits* are that no benefit should be withdrawn from very low earners; that no two benefits should be withdrawn at the same time (thus compounding the withdrawal rate and making work pay less); and that they should be withdrawn on average more slowly than they currently are. Full payment of benefits regardless of earnings (and withdrawal through the PAYE tax system) will ensure claimants have a stable income stream even if they take seasonal or temporary work.

Getting the incentives right will give people a financial reason to work and not worry that, by doing so, they will lose the roof over their heads.

Welfare of all, not just social tenants

The support services made available to social tenants should be available to those in similar economic circumstances, regardless of their tenure. For example, housing benefit (or its equivalent under the proposal outlined in *Dynamic Benefits*) should be made available to mortgagors. Similarly, older people who are not living in social housing should be supported as their needs require.

The corollary of this is that local authorities and housing associations should be able to differentiate the offer made to tenants. Those who do not require management of their properties or do not want to pay for other support services should be offered a lower rent.

Flourishing communities

In this piece we have argued for a range of measures to tackle the social immobility, worklessness and dependency that characterise life on many of our housing estates. Essentially, this comes from viewing social housing as a means to a better life for adults and their children, and not a destination in itself. By allowing local need to dictate policy, by encouraging aspiration through ownership and worthwhile employment, and by ensuring that local authorities look to the social needs of all and not just those in the social sector, we can reverse the policy mistakes of the last few decades.

There is a saying that one can always tell when one is in a social housing estate by the type of front door. If residents take the time to personalise their property, by placing knockers on their front doors or hanging flower baskets, visitors to a housing estate can sense ownership and pride – the bedrock of any flourishing community. Doors that are uniform and unpersonalised suggest an absence of personal investment and care. While it may be an odd measure of the success of housing policy, the sight of a thousand flowers blooming would suggest that we were closer to getting it right.

Philippa Stroud

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The Centre for Social Justice is an independent think tank established by the Rt Hon Iain Duncan Smith MP in 2004 to put social justice at the heart of British politics. www.centreforsocialjustice.org.uk

Notes

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