

23 May 2018

Housing affordability

Purpose of report

For direction.

Summary

There is a crisis because housing is unavailable, unaffordable, and is not appropriate for everyone that needs it. This report explores the current affordability of housing, its impacts, and the policy solutions, and makes a series of recommendations for the LGA to continue advancing the case for ensuring the provision of affordable housing.

Recommendation

That the Board consider, direct and agree recommendations set out in paragraph 16.

Action

To be taken forward by officers as agreed.

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Housing affordability

Background

1. The LGA has long highlighted the widespread impacts of the housing crisis on communities and economies, and has argued for policy and funding reforms that enable councils to significantly increase the supply of council housing, and to help households secure sufficient incomes to access and sustain tenancies.
2. Government has taken positive steps recently, including additional £2 billion for the Affordable Homes Programme including social rent, £1 billion borrowing headroom for council house building, a consultation on new flexibilities to replace homes sold through Right to Buy, a new Targeted Affordability Fund, the reversal of proposals to apply the Local Housing Allowance rate to social housing, and many others.
3. However taken together these measures still fall short of what is needed to resolve housing unaffordability for families, communities and economies. The sector hopes – and has been making the case for - the forthcoming Social Housing Green Paper presents a positive forward vision for social housing as a positive tenure for all.

Issues

4. There is a crisis because housing is unavailable, unaffordable, and is not appropriate for everyone that needs it. While there are a number of explanations for this, the reality is that the housing market is a complex and interconnected system, both within and with other parts of our economy and society. The inability to increase the supply of new homes has had a significant impact on affordability, but there are many factors with influence such as the economy's treatment of housing as a financial investment, the availability, quality and security of local employment, the conditions of infrastructure, access to leisure and culture, quality of schools etc, and, of course, household incomes and pressures from the wider cost of living.
5. Resolving housing affordability is therefore complex and well debated, however there is growing consensus that simply building more homes will not resolve affordability unless a significant proportion of those homes are genuinely affordable, and built within wider local strategy for growth, jobs and services. This has been the primary argument made by the LGA for some time, which has placed less emphasis on other factors such as credit supply, taxation, and investment incentives.

Affordability

6. *Home ownership* - House prices are now eight times annual incomes. Nevertheless mortgage repayments are well within historic affordable levels with the average spend around 20 per cent of incomes, far lower than renters. However the high house prices demand large deposits, a significant constraint to accessing home ownership. The

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Council of Mortgage Lenders have said on average a first time buyer needs an income of £40,000 and a deposit of £25,000 (62 per cent of gross income), in London they typically need an income of £65,000 and a deposit of £81,000 (131 per cent of gross income). While there are large variations, even the more 'affordable' markets have challenges relative to incomes – house prices are five times incomes in Stoke, Hartlepool and Hull.

7. As a result, home ownership rates have been declining since 2003, although still accounting for over 60 per cent of all homes. However the average age of home owners is increasing and market transactions are stagnating as young people today are half as likely to be home owners than they were 20 years ago. Increasingly young people rely on the 'bank of mum and dad' to access home ownership, which is in part determined by how fortunate their parents were in previous housing booms.
8. *Social housing* - Social housing rents are set at either social rent, around 60 per cent of market rent, or affordable rent at around 80 per cent of market rent. However on average nationally social rents account for around 30 per cent of total household incomes. This jumps to 40 per cent when discounting housing benefit. LGA analysis found that almost 1 in 10 housing association tenants are spending more than 50 per cent of their total household income on rent, around 6 percent of council tenants are in the same situation - even the most affordable housing is becoming unaffordable for a sizable proportion of the population.
9. The availability of social housing has fallen since the 1980s as the sector has not been able to replace homes sold via Right to Buy – it has dropped from 30 per cent of all homes in 1980 to under 20 per cent today (including affordable rent). Within social housing there has been a particularly stark fall in socially rented housing, for which there is large demand in most markets. Altogether over 150,000 social rented homes have been lost in the last five years, including almost 50,000 lost through housing associations converting social rented housing into affordable rented housing.
10. *Private rented sector* –The average private rent is well over 30 per cent of total household income, and almost 15 per cent of private renters spend over 50 per cent of their total household income on rent. The overall average cost of rent is over 50 per cent when discounting housing benefit, illustrating the potential impact of welfare reforms for private renters. Affordability does vary around the country and in some markets private rent can be equal to, or even lower, than affordable or social rent levels. While affordability is most stretched in London and the south east, it is likely that more households in London will have multiple earners living in it, possibly earning well above the median, which is less likely to be the case in other markets.
11. The private rented sector is now larger than the social rented sector at just over 20 per cent of all homes. For many new households it is the only option due to the unavailability of social housing and the unaffordability of home ownership, and so is likely to continue

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growing and evolving (including greater institutional investment through build to rent). The costs of renting privately provide a significant limitation on the capacity of households to save for a deposit. And low-income private tenants are also especially vulnerable to reforms that reduce the level of housing benefit, such as the Local Housing Allowance freeze, Overall Benefit Cap, Shared Accommodation Rate.

Impact

12. The impacts of housing unaffordability are widespread: causing stress that affects all aspects of life for families; affecting the recruitment and retention of skills for employers to create growth; distorting local economies and impacting on communities; putting greater demand on welfare and support services, and creating wider and long lasting financial insecurity for younger generations that will likely remain with many of them into old age.
13. The unavailability of affordable housing is expensive to the state. Last year the Government spent £24 billion helping top up incomes to meet housing costs through housing benefit. This equates to around 80 per cent of the Government's investment in housing, the other 20 per cent being spent on building more homes. A reversal of the situation in the 1980s, where 80 percent was invested in building new homes, 20 per cent on supporting families to meeting housing costs. Government have bought in reforms to help curb increases in housing benefit, however the demand for it is not falling.
14. All of these issues are important to councils, but councils are also supporting those at the sharpest end of the housing crisis. Loss of an Assured Shorthold Tenancy (prevalent in the private sector, but also used by housing associations) is now the leading trigger of homelessness, and has more than quadrupled since 2009 to 20,000 last year. By comparison all other triggers for homelessness (such as family breakdown) have remained consistent. In an LGA survey 9 in 10 councils reported that reforms reducing housing benefit – in particular the Local Housing Allowance freeze – were increasing homelessness in their area.
15. Currently councils are housing 79,000 homeless households including over 120,000 children in temporary accommodation. Over the last three years councils have been housing an additional 900 homelessness children each month. The net cost for councils has tripled in the last three years and has been identified by the National Audit Office as an increasing and significant financial risk for the sector.

Policy response

16. *Defining affordable housing* - The definition of affordable housing has changed significantly in recent years, including the introduction of affordable rent, affordable private rent, starter homes, rent to buy products and more. Within these definitions the role of traditional social housing has been reduced significantly, most recently

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demonstrated by the draft National Planning Policy Framework. All definitions continue, however, to link into a housing market that everyone accepts is broken, rather than to what people can actually afford relative to their incomes.

17. *Investing in affordable housing* - As indicated in the introduction there have been a number of measures to increase the supply of affordable rent and social rented property. Despite recent increases, however, investment in social and affordable rent is lower than in previous years. It is much lower than schemes supporting low cost home-ownership, most noticeably Help to Buy and the recent stamp duty exemption, for which there are questions over efficiency.
18. *Welfare reform and housing affordability* – An individual housing crisis can result from any combination of challenges in health, relationships, employment and housing, but increasingly this can include welfare reforms making housing less affordable. A range of policy reforms have sought to adapt the impact of welfare reforms on groups at risk of homelessness – such as the Targeted affordability Fund, and other measures mentioned in the introduction to this paper – however councils and leading charities project homelessness will continue to increase without further reforms that make the private rented sector affordable for low-income households in many areas.

LGA action – proposed next steps

19. The Board is asked to comment on the proposed set of policy recommendations and actions:
 - 19.1. Undertake research into the case for defining affordable housing as linked to household incomes, for instance around 30 per cent of household incomes such as in London's Living Rent, and explore how these products might be understood and developed.
 - 19.2. Further build the wider socio-economic case for enabling a renaissance in council house building through Housing Revenue Accounts by revisiting the principles of self-financing, lifting the borrowing cap and allowing councils to retain 100 per cent of receipts.
 - 19.3. Continue to build partnerships with Homes England and others to support capacity building and investment enabling the delivery of affordable homes as part of wider strategies to create inclusive growth, jobs and well-being.
 - 19.4. Investigate, capture and present good practice and policy recommendations from councils that are working positively with private landlords to provide secure affordable housing to low-income families.

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- 19.5. Explore with the Government the further adaptations to welfare reforms necessary for significantly reducing the risks that low-income households become homelessness, in particular in lifting the freeze on the Local Housing Allowance.

Financial Implications

20. None

Implications for Wales

21. There are no specific implications for Wales.

Next steps

22. Officers to take forward actions as directed by the Board.