

AFFORDABLE HOUSING

A report by Planning Oxfordshire's Environment and Transport Sustainably (POETS)

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Background

1. Britain's housing market is broken – so said the government in the 2017 housing white paper. Building rates have fallen substantially since the late 1970s. The main cause is the dramatic decline in the number of homes built by the public sector. The private sector has not filled the gap (see Figure 1 in section A1 of the Appendix).
2. Housing is increasingly unaffordable. Average prices in Oxford are 17 times average incomes. Throughout much of the country people can't afford to buy or rent a safe, secure, affordable home that many in previous generations have taken for granted.
3. The housing emergency is all around us. There are rising levels of homelessness, over-crowding and rough sleeping. The cost of homes are rising rapidly, rents are soaring and no-fault evictions are increasing. Some 2.5 million council homes have been sold. The delivery of social housing has been slow.
4. All this has massive social and financial costs. Approximately £25 billion a year is spent on housing benefit, £10 billion so far on help to buy, as well as emergency housing and health services. (Sections A1 and A2 in the Appendix give more detail on the nature of the problems caused and the costs to the public purse.)
5. The government believes the starting point for fixing the broken housing market is to build more homes to slow down the rise in costs. But the large volume house builders, who build the majority of homes, have an interest in controlling the rate of building so that prices remain high. The government's starting point fails to recognise there is no simple relationship between supply and price. House price inflation is also affected by low interest rates, favourable taxation, easy credit, available capital (including from overseas investors whose properties often remain vacant for all or most of the year) and the poor performance of other investment opportunities¹. Simply building more homes will not make them affordable.
6. Affordable homes are provided through the planning system, but it is a relatively blunt tool. Only a quarter of the homes built in Oxfordshire in the 7 years to April 2018 were affordable according to the government's definition, which equates to market rates discounted by a mere 20% - clearly not affordable in Oxfordshire to most people on average incomes.
7. Only Oxford publishes figures on the number of homes built for social rent, a mere 205 in the 7 years to 2018. Cherwell reports that there continues to be no delivery of social rented homes. And South Oxfordshire has been unable to provide homes for social rent because of viability issues – it would make the schemes too costly to proceed. The housing market is indeed broken. (Section A5 of the Appendix has detailed figures on affordable housing completions by district.)

The Solution

8. Government policy needs to focus far more on the quality and affordability of new housing and not look almost exclusively at housing numbers. Recent changes such as abandoning the code for sustainable homes or allowing office buildings to be converted to housing without the need for planning permission are moves in the wrong direction. Allowing less sustainable housing to be built when we are facing a

climate emergency and condoning new housing with worse space standards than existed a century ago is a shameful situation for one of the richest countries in the world.

9. Investing in building genuinely affordable homes makes sound economic and social sense. Without this the government's housing targets will not be achieved and vast amounts of public money will continue to be paid without providing any new homes. As Shelter proposes it would be much better value for money to invest £10.7 billion a year over 20 years to provide 3 million genuinely affordable homes². There would also be additional benefits in the wider economy (see section A4 in the Appendix). What is more, as the recent Stirling Prize for Goldsmith Street in Norwich shows, the public sector is capable of producing housing that is both affordable and very high quality³. However, the increase in interest rates charged by the Public Works Loan Board announced in October this year could delay or scupper similar housebuilding and regeneration schemes.

How the government can achieve more affordable homes

Fund genuinely affordable homes

10. The government should inject public money, particularly through grants to local authorities, into building genuinely affordable homes. This would increase overall house building rates - possibly to the levels the government wants to achieve - reduce housing benefit payments, give choice and much needed genuinely affordable secure homes. While the removal of the borrowing cap for local authority housing revenue accounts is welcome, it does not substitute the need for direct grant funding.

End the right to buy council homes in England

11. This has happened in Scotland and Wales to retain the limited number of genuinely affordable homes; and scrap the right to acquire housing-association homes. If the rights to buy and acquire are to be retained, sales should not be at a discounted price and the full amount should be retained by the local authority or housing association to build more genuinely affordable homes.

Introduce rent controls and greater security of tenure

12. While there is a housing shortage landlords are able to increase rents which in turn feeds house-price inflation. Currently, landlords are able to evict tenants without reason after their fixed-term tenancy ends. Such no-fault evictions should be ended.

Widen the housing market and encourage competition

13. Widening the housing market could be achieved by:
- supporting small builders and providing easier access to development finance through Homes England
 - encouraging institutional investors to fund high quality, secure, affordable homes for rent
 - supporting self-build schemes

- promoting community-led not for profit housing schemes. There is a range to choose from including community land trusts, housing co-operatives, cohousing schemes and community self-build schemes among others. ⁴

Offer land first to public bodies

14. Public bodies should have first refusal to buy land being sold by other public bodies. The value of this land should be set well below the best consideration or 'hope value'.

Capture land value

15. More of the massive increase in land values must be captured when planning permission is granted for housing. This would enable the provision of more genuinely affordable homes and associated infrastructure at reduced cost to the public purse. (See POETS forthcoming paper on Land Value Capture.)

Reform Viability Assessments

16. The routine use of viability assessments to reduce the amount of affordable housing provided must end. The effectiveness of the changed guidance on viability assessments, while welcome, should be monitored. Given increasing house and land prices, guidance is needed on what is a reasonable profit for landowners and developers. (For more details see section A3, paragraph 4 in the Appendix.)

Reverse changes to planning guidance

17. Reversing the changes to planning guidance to enable more affordable housing could include
- changing the NPPF (National Planning Policy Framework) definition of affordable housing from no more than 80% market price to one related to local incomes as in earlier guidance. A home at 80% of market price is clearly unaffordable to many local people in property hotspots like Oxfordshire
 - changing the NPPF (paragraph 63) so that affordable housing once again can be sought on small sites.
 - reversing the 2013 change to the GPDO (General Permitted Development Order) so it's no longer possible to convert offices to residential use without the need for planning permission. This would stop the provision of substandard units and allow affordable homes to be provided when planning permission is granted (see section A3, paragraph 5 in the Appendix).

Slow down house-price inflation

18. Some examples of how this could be achieved are given in a recent book by Josh Ryan-Collins⁵. Possibilities include
- introducing higher levels of property taxation, for example, on capital gain from the sale of homes (and which, unlike now, should be higher rated than income tax). This could be applied in particular to homes bought for investment that are not occupied, second homes and buy to let properties
 - reassessing inheritance tax
 - introducing a tax levied on properties owned through off-shore tax havens

- revaluing council tax bands, pending a full review of local authority funding mechanisms
- encouraging the Bank of England to influence banks to reduce the credit available for buy-to-let and second home mortgages while re-directing lending into the productive sectors of the economy.

What local authorities can do

Lobby central government to fund the construction of more affordable homes

19. As set out above, more direct money from central government for building genuinely affordable homes makes sound economic sense. It will increase health, well-being and productivity and it will also achieve a higher rate of new house-building overall.

Borrow money

20. Borrow money to build council-owned homes at genuinely affordable rents related to local incomes and invest in skills in design, development and construction.

Have up-to-date plans and guidance

21. These must define the infrastructure and type of affordable housing required (i.e. housing priced significantly below 80% of market rates). This will minimise the opportunity for developers to claim unforeseen requirements and argue that development proposals have become unviable.

Ensure staff have well-grounded and effective negotiating skills

22. Currently viability assessments are routinely used by developers to reduce the amount or type of affordable housing provided. The government's new guidance on viability, including that the price paid for land is not a reason to reduce affordable housing, may go some way to redress the balance.

Secure realistic payments

23. Where payments are made by developers to fund off-site affordable housing, these must fully reflect the cost of providing a new home.

Challenge charitable landowners to meet targets

24. Colleges, universities, Church Commissioners and other charities sometimes fail to provide enough affordable and social housing in accordance with local plans. This should be robustly challenged.

Promote community-led housing

25. There are several ways in which communities could be encouraged and enabled to take the lead on delivering their own affordable housing. These include:
- collaborating with housing associations and local communities to initiate housing schemes
 - drafting planning policies that prioritise community-led housing

- making small publicly-owned sites available for community-led developments at below market value
- providing grants and loans to community groups.

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Appendix

A1 The Problem

1. The rate of house building has fallen since the late 1970s, chiefly as a result of the cut in public sector housing as the bar chart below illustrates.

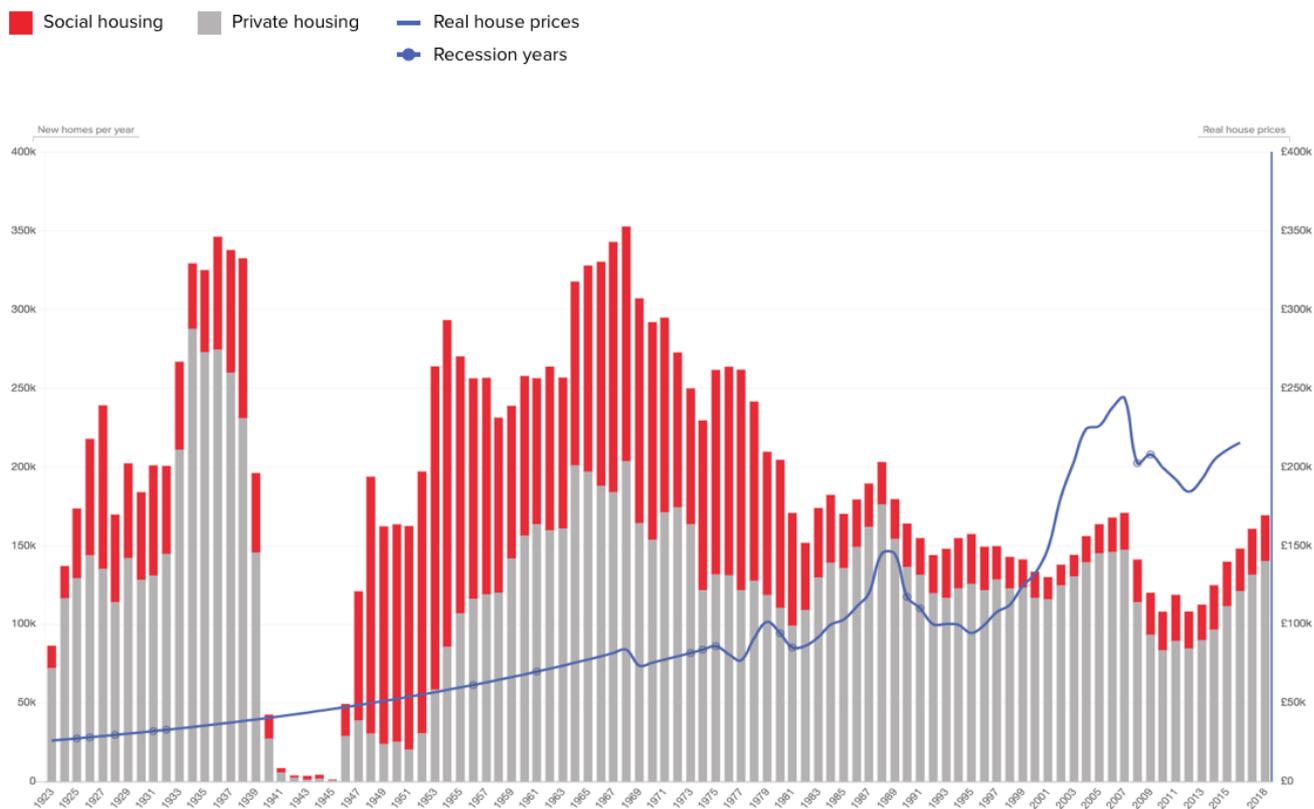


Figure 1: House building in England 1923-2018¹

2. There is too much reliance on large volume housebuilders who build slowly to maintain profits, new players are needed². The volume house builders (defined as delivering more than 2000 homes a year) accounted for 59% of all homes built in 2015, up from 31% in 2008³.
3. Escalating house prices mean that whereas in 1996 two-thirds of 25-35 year-olds on middle incomes owned a home, by 2016 this had fallen to just a quarter.
4. Rising rents and welfare cuts have led to a 60% increase in homelessness between 2009 and 2017 when there were at least 236,000 homeless people in Britain and 120,000 children living in temporary accommodation. By 2018 277,000 people were homeless in England on a given night¹.
5. 1 in 4 families with children now rent from a private landlord, up from 1 in 10 in 2003. Over ¼ of renting parents have moved 3 or more times in the last 5 years¹. Such upheaval can have a seriously adverse impact on children's education and sense of security.
6. 2.5 million council homes have been sold since the right to buy was introduced in 1980; 85% have not been replaced⁴. 40% of council homes sold to tenants in

England are now owned and let by private landlords at market rents and in Milton Keynes the figure is as high as 71%⁵.

7. 1.4 million council homes have been transferred to housing associations and rents have increased. Cuts in government subsidy for new build, the increasing reliance on commercial borrowing and changes to their role to become more like private developers have reduced the amount of genuinely affordable homes housing associations provide.
8. Nationally, private renting is up from 13% of the housing stock in 2007 to 20% now⁶. In Oxford 30% of homes are now privately rented.
9. Research for the National Housing Federation estimates 8.4 million people are living in unaffordable, insecure or unsuitable homes⁷.

A2 Costs to the public purse

1. The country currently spends £25 billion a year on Housing Benefit - this does not provide new homes but subsidises rents paid to landlords⁸. There are no assets to show at the end of this as there would be if there were investment in new public sector housing.
2. Help to Buy has now cost over £10 billion, and has helped to keep the prices of new homes high. It serves to stoke demand and is like trying to put out a fire by pouring petrol on it. A review of Help to Buy by the National Audit Office found that the majority of people using the scheme would have been able to afford a home without it. It has, however, supported massive remuneration packages for large house builders such as the £75m bonus taken by the chief executive of Persimmon Homes - half their homes were sold through the help to buy scheme⁹. Yet in 2018 the government only spent £1.27 billion on its Affordable Homes Programme, down 70% on 2010 levels. As a result, far fewer social rented homes are being built. In 2017/18, just 5,400 were built, compared to almost 36,000 in 2010/11 before funding was cut¹⁰.
3. The cost of poor housing on the NHS in England was estimated earlier this decade to be £1.4 billion a year¹¹.
4. Between 2013/14 and 2017/18, local authorities in England spent a total of £3.97 billion on temporary accommodation – with costs increasing year on year¹².

A3 Who benefits from the current situation

1. Landowners, developers, home owners and buy-to-let landlords are all benefitting from the rise in house values.
2. The average figure for England (excluding London) is that agricultural land, which is granted planning permission for residential use, would, on average, increase in value from £21,000 per hectare to £1.95 million per hectare - a 93-fold increase. At the same date residential land values in Oxford were £4.3 million a hectare¹³.
3. Where estimates have been made, it indicates that landowners currently retain around 50% of the increase in land value arising from the granting of planning permission¹⁴.
4. Developers are benefitting from the rise in house prices. Between 2011/12 and 2016/17 the average contribution from developers to affordable housing and infrastructure remained around £19,000 per home, but house prices increased by 31% and the largest 5 developers increased their profits from 12% to 21%¹⁵. At the same time developers were using viability assessments to reduce the amount of affordable homes provided. This may have been partly addressed in paragraph 57 of the National Planning Policy Framework February 2019.
5. The owners of offices benefit from the GPDO (General Permitted Development Order) which now allows offices to be converted to residential use without the need for planning permission i.e. more cheaply. The Local Government Association has estimated that between 2015-16 and 2017-18 at least 10,000 additional affordable homes could have been secured if conversions had gone through the planning process. In Oxford 404 'homes' in former offices converted to 10 or more units have been provided this way – with the 50% requirement in the local plan this represents a potential loss of 202 affordable homes.

A4 Benefits to the economy of investing in public sector housing

1. Shelter¹ proposes building 150,000 genuinely affordable homes a year. It would cost £10.7 billion a year on average – reduced to £3.8 billion when savings in benefits and increased taxes are considered and would provide a return on investment in 39 years.
2. Similarly, Savills consider that 'grant funding to build social rented homes makes real economic sense and could be considered a good investment'¹⁶.
3. Research from the National Housing Federation finds that investing in new homes would add £120 billion to the economy each year, through the creation of local jobs in construction and other industries across the country. Effectively, every pound spent by the Government would generate at least £5, boosting the economy in a balanced and sustainable way¹⁰.

A5 Housing completions in Oxfordshire

1. The average building rate in Oxfordshire in the 7 years to April 2018 was 3,028 a year, compared to the average building rate of 5,000 a year required by the Growth Deal. To meet the 100,000 new homes target by 2031 the average building rate will have to increase to 6,062 a year (i.e. double) in the 13 years from April 2018.
2. Affordable housing completions in Oxfordshire are summarised in the following table:

District	All completions	Affordable completions	% affordable	Comments on tenure of affordable homes
Oxford City	2,026	327	16	205 (60%) social rent 136 (40%) 'affordable' rent and shared ownership
Cherwell	5,966	1,674	28	Note in 2018 that there continues to be no delivery of social rented homes
South	4,364	1,249	28.6	844 (69%) 'affordable' rent 385 (31%) shared ownership
Vale	6,300	1,496	23.7	1,085 (73%) 'affordable' rent 411 (27%) shared ownership
West	2,538	709	27.9	Not given
Total	21,194	5,455	25.7	

Table 1: Affordable housing completions in Oxfordshire as a percentage of total completions 2011/12 – 2017/18 (source district councils' annual monitoring reports)

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