

# Shelter briefing: Building more affordable homes

## Summary

Shelter helps millions of people every year struggling with bad housing or homelessness and we campaign to prevent it in the first place.

At the heart of every problem that we see is the overall lack of affordable homes. Quite simply we aren't building enough homes – and haven't for a generation. In addition, the homes we are building are all too often unaffordable, unattractive and lacking in necessary community infrastructure.

The our increasing reliance on an expensive, insecure and often unprofessional private rented sector to house families on typical incomes is behind the rise in homelessness in the UK.

**We need to change this by securing consistent, long-term funding from the government for a new generation of public homes at low rents. We also need to address problems in current planning legislation that give landowners and developers too much control over what gets built.**

## Background stats

- 268,000 people are now homeless in England, including 123,000 children;
- 80,000 households are living in temporary accommodation – a rise of 44% in the last 5 years;
- Average house prices are 8 times average income for ordinary working families;
- 1.2 million households were on council house waiting lists last year.

## Supply: the current situation

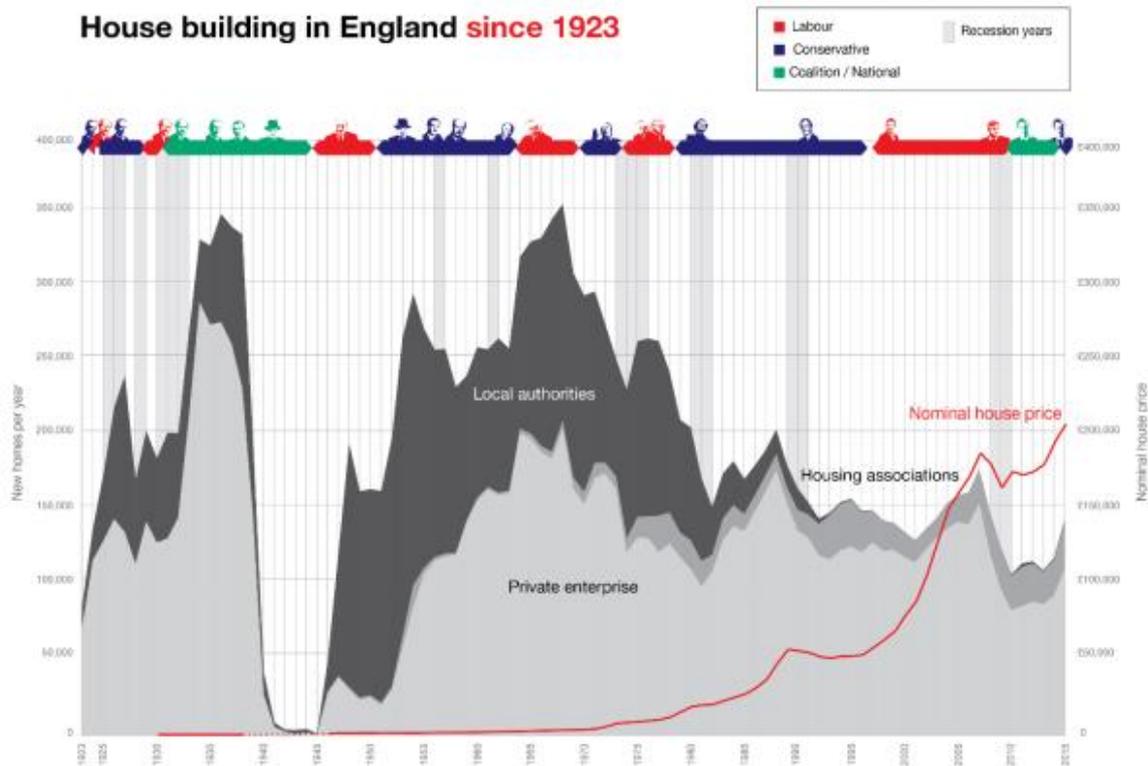
Last year in England, 183,570 new homes were built, of which just 41,350 were affordable. While this is an increase on the previous year, it remains well below the government's 300,000 homes per year target.

In particular, the government needs to prioritise the delivery of homes for social rent, which is the only tenure that will effectively reduce levels of homelessness and take the pressure off the housing benefit system.

Despite this, numbers of new social rent homes have now fallen to historic lows, with just 5,380 constructed in 2016/17. For comparison, we have 1.2 million households on the waiting list. In order just to meet the backlog of need, we need to be building at least 90,000 new social rented homes a year.<sup>1</sup> This may seem large but it is less than councils were building in the peak of the post-war era, as the graph below shows.

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<sup>1</sup> NHF (2018), *England short of four million homes* <https://www.housing.org.uk/press/press-releases/england-short-of-four-million-homes/>



Sources: DCLG, Shelter analysis  
 Images (1946-2015): A Right To Build, Architecture 00/, 2012 <http://www.architecture00.com/docs/righttobuild>

Addressing this trend has to be a priority for the government, and through steps such as the ‘Housing White Paper, the National Planning Policy Framework and Letwin Review into buildout, it appears that the intention to do this is there.

### Why we need more affordable homes:

#### Growth in the private rented sector and decline in home ownership

Our research shows that the private rental sector has more than doubled between 2001 and 2018, from 11% of the adult population to 28%. The proportion of individuals living in their own property is also on the decline, falling from 73% of the population to 59%.

This sudden shift in housing situation is largely unprecedented in recent history, and mostly a function of the decline of affordable public housing. The only near-equivalent in history is the inverse move - from private to social renting - that took place after World War II.

#### Rents versus wages

A greater reliance on private renting means more families facing high rents. The English Housing Survey 2016/17 shows that private renters spend 41% of their income on housing, compared to 31% for social renters and only 19% for home owners.

Since 2011, the rise in the cost of renting privately has surged ahead of wage growth. In fact, our research shows that **private rents rose 60% faster than wages** across England between 2011-2017. During this time, rents increased by 16% – but wages only rose by 10%. Every month, 17% of private renters are behind with or face a constant struggle to pay their rent.

In addition to the above difficulties, upfront costs of renting such as rental deposits, letting agency fees and advance rent payments, can make moving unaffordable. Average total moving costs were around £1,400, and the average letting agent fee paid was £246.24.

With more and more individuals renting across England, the affordability crisis in private rents is a widespread issue. Spreading out of London, the crisis is hitting cities like Cambridge, Bristol and Birmingham – and even market towns, like Daventry.

### **Insecurity of private tenancies**

The majority of private tenancies are just twelve months long, with those on lower incomes often not even able to get this and instead being offered the statutory minimum of six months. This is leading to an insecurity that is playing a major role in the rise of homelessness in recent years. Shelter see this every day in our services.

We also see it in the homelessness statistics. **The termination of a private rented sector tenancy is now the single lead cause of homelessness in England**, ahead of family or relationship breakdown.<sup>2</sup>

## **What has caused the undersupply of affordable homes?**

### **The challenge of speculative housebuilding**

A major limitation to our ability to build enough genuinely affordable homes is the speculative development model we rely on to build the majority of our homes.

This means that they buy land and build homes without knowing who they will sell them to, or what price they will fetch. Under this system, developers compete against each other to pay the most for land, which ratchets land prices upwards. In fact, land prices in England have doubled in the past five years.

Having taken on a large upfront risk, developers then need to recoup their investment and make profit, which means that they are strongly incentivised to squeeze down on costs by cutting corners where possible.<sup>3</sup>

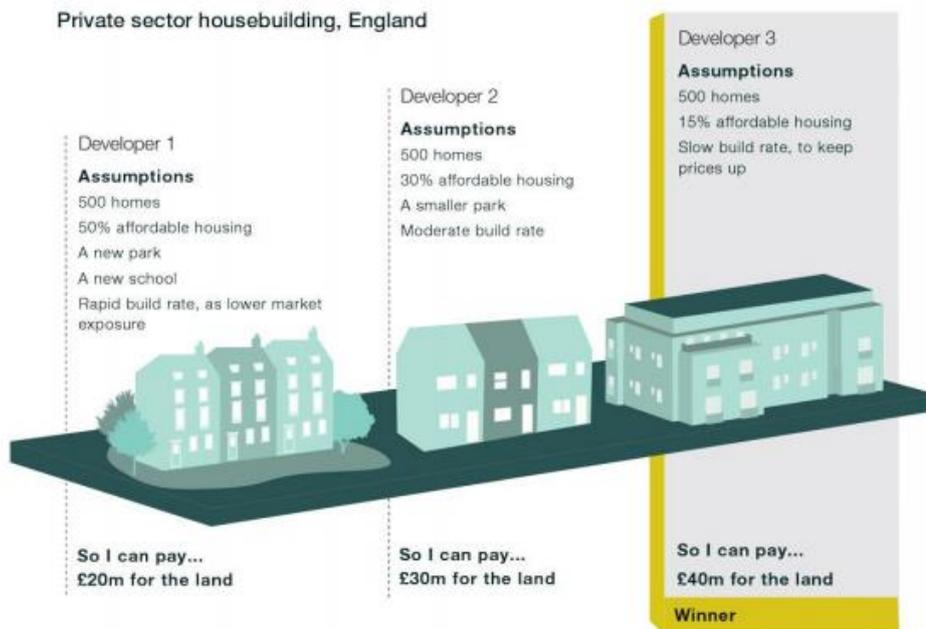
**The competitive nature of this model drives down affordable housing, quality and infrastructure provision, and results in slow build out rates.** Shelter research in 2017 found that typical new homes built today are out of reach for 83% of working private renting families across the country – even if they use the Government's Help to Buy scheme. It is this which often makes housebuilding unpopular locally.

High land prices and the speculative building model make it difficult to resolve the underlying problems with house building. **Fundamentally what is needed is to get land into development at lower cost, and to diversify the range of suppliers and business models.** This would enable more of the value generated by development to support quality, affordable housing and infrastructure, as well as opening up the market to SMEs and new entrants to diversify supply options, increase overall output and drive improvement through competition.

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<sup>2</sup> Shelter (2016), *Green Book: 50 years on*, p.51: [http://www.shelter.org.uk/data/assets/pdf\\_file/0003/1307361/GreenBook\\_-\\_A\\_report\\_on\\_homelessness.pdf](http://www.shelter.org.uk/data/assets/pdf_file/0003/1307361/GreenBook_-_A_report_on_homelessness.pdf)

<sup>3</sup> For more on this, see Shelter (2017) *New Civic Housebuilding* <https://civichousebuilding.org/>



## Low land value capture

Partly as a result of our over-reliance on the speculative model of housebuilding, private development is often of little benefit to those on ordinary incomes. As well as producing private homes for sale that are often unaffordable, this model also means that very little of the value created in a development goes to community benefits, such as affordable housing or infrastructure, instead going to the landowner. The Centre for Progressive Capitalism estimate that 75% of the uplift in land value created by development goes to landowner profits, with only 25% going to community benefits. In other European countries the reverse is true.

### Planning loopholes

Previously, the NPPF meant that developers could exploit the “viability loophole” which allowed big developers to shirk their affordable housing obligations if they can show that building low-cost homes on a scheme will threaten their ability to make a 20% profit. As a result, developers and land traders have been able to overpay for land by assuming they will not provide affordable homes, then use the high price they have paid for land to ‘prove’ they cannot afford to provide those affordable homes.

In recent years the main vehicle for doing this has been ‘viability assessments’. A 2017 Shelter investigation of 11 major urban local authorities found those areas to be losing 2,500 affordable homes each year through the use of viability assessments<sup>4</sup>. The picture in rural areas is similar.<sup>5</sup>

Recent government changes to viability guidance in the National Planning Policy Framework seeks to address this by heavily restricting the use of viability assessments, and the changes are very welcome. However it is important that councils use new powers given to them by central government to set strict and meaningful targets for affordable housing provision on private developments.

### Permitted development rights (PDRs)

Permitted development rights allow certain classes of development to bypass full local planning, and only need to be given prior approval by local planning authorities; and authorities can only consider extremely

<sup>4</sup> Shelter (2017) *Slipping through the viability loophole*

[https://england.shelter.org.uk/\\_data/assets/pdf\\_file/0010/1434439/2017.11.01\\_Slipping\\_through\\_the\\_loophole.pdf](https://england.shelter.org.uk/_data/assets/pdf_file/0010/1434439/2017.11.01_Slipping_through_the_loophole.pdf)

<sup>5</sup> CPRE and Shelter (2018) *Viable villages*

[https://england.shelter.org.uk/professional\\_resources/policy\\_and\\_research/policy\\_library/policy\\_library\\_folder/briefing\\_viable\\_villages](https://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/policy_library_folder/briefing_viable_villages)

limited factors as part of the prior approval process. Local planning authorities cannot enter into section 106 agreements with developers who are carrying out office-to-residential conversions through PDR, so planning authorities can no longer impose affordable housing obligations on these conversions. As a result, the LGA estimate that we are losing around 7,644 affordable homes over two years through PDRs.<sup>6</sup>

Additionally, planning authorities cannot impose space standards on these conversions. This is often leading to the development of whole apartments that are smaller than a standard bedroom, and these highly profitable conversions fail to meet affordable housing need.

### **Under investment in building affordable homes**

In 2011 the Affordable Homes Programme was cut by 60%, and funding for social rent was removed completely. We are currently at the lowest levels of social rented housebuilding on record. The value of land is so high, that many local authorities are unable to buy the land at prices they can afford, therefore preventing council houses from being built on the scale that we truly need to address the housing crisis.

This has been exacerbated by the councils' Housing Revenue Account borrowing cap, where each council had a limit to how much they are allowed to borrow which is far tighter than the value of their assets, in a Treasury attempt to control public borrowing levels. **This has now been lifted in a recent announcement by the Prime Minister.** Funding for social and affordable housing was committed in the 2017 Autumn Budget, but housing needs to remain a consistent and long-term priority for government spending in the future as well.

### **Solutions: how we deliver more affordable homes**

If we fix the problems identified above, we can deliver many more affordable homes – especially homes at social rent - for those who need them across the country. We have done this before as a country and we can do it again.

Shelter's cross-party Commission on the Future of Social Housing will report in January on a full vision for how to achieve this. However, we know there are already four key things the government can do to deliver more affordable homes. 2019 presents two major moments for them to achieve this: the Comprehensive Spending Review and the Queen's Speech.

#### **1. A new funding settlement for affordable housing in the 2019 CSR**

As the Treasury Select Committee said in its response to the Budget, significant amounts of public housebuilding will be needed if the government is to reach its target of constructing 300,000 homes a year. In her Conference speech, the Prime Minister announced that the government is **lifting the HRA borrowing cap**, coming into force on the 30<sup>th</sup> October. This is another substantial step towards helping the government achieve this target of 300,000, but we now need to make sure that the homes being built are social or affordable.

Restoring social housing grants could finance a new wave of construction – and boost the supply of genuinely affordable homes. Councils and housing associations building homes for social rent are not constrained by the market absorption rates that limit the output of the speculative housebuilding model, so public housebuilding can happen at a much faster rate, raising the overall level of supply and increasing diversity and competition in the housebuilding sector.

The Comprehensive Spending review will be a key moment for when the next Affordable Homes Programme (AHP) can set out a sustained funding programme, ensuring commitment from the government to reach their target each year.

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<sup>6</sup>Daily Telegraph (2018) 'Put an end to permitted development rights...says LGA'

<https://www.telegraph.co.uk/business/2018/01/18/put-stop-permitted-development-rights-skirt-planning-system/>

At present, around £1bn per year of grant is dedicated to social rented housebuilding, only a small part of the overall Affordable Homes Programme and dwarfed by the £24 billion spent on housing benefit each year. The 2019 CSR should set out a significantly expanded social housing funding settlement for the next 5 year Affordable Homes Programme running from 2021-2026.

## **2. Greater CPO powers for land to come into development at lower values.**

The value at which land currently comes into development means that there is little or no opportunity to provide affordable housing or community infrastructure. Bringing land into development at lower values is crucial to enabling this, by allowing local authorities to purchase land more cheaply and capture the uplift themselves.

In [New Civic Housebuilding](#) we outline how this can be done. To enable this, we must also reform the outdated 1961 Land Compensation Act that currently has a distorting effect on the land market in England – leading to high land prices and subsequently fewer and fewer affordable homes.

If the landowner doesn't wish to invest their land as equity, they should be compensated for their land fairly, based on the value of the housing scheme that is needed – not the one imagined by land traders. It is only by removing landowners' ability to hold their land back for the highest possible price that we can build our way out of this housing crisis.

This legislation should be included in the Queen's Speech. It was contained in both main parties manifesto, and was recently supported by the HCLG Select Committee. It was also backed up by an open letter across the housing sector, led by prominent Conservative think tank Onward<sup>7</sup>.

## **3. Establish powerful new development corporations that are able to assemble and masterplan land**

A new wave of development corporations should be formed with new powers to assemble land, using the above CPO powers if necessary, and act as master planners. These corporations would be responsible for raising finance, assembling sites, master planning large scale developments, organising infrastructure investment, granting planning permission, and parcelling permissioned land out to developers – including SMEs, new entrants and public bodies.

## **4. Further closing planning 'loopholes'**

The 'viability loophole' within the NPPF has now been closed in the Autumn 2018 revised publication. This is a significant step towards getting more social homes built. However, now we need to ensure that the government and local authorities monitor the impact of these changes to viability to make sure these affordable homes are delivered without excuse.

In addition, there needs to be a restriction in the use of Permitted Development Rights (PDRs). The government is due to consult on the use of these, with the possibility of extending them further to include demolitions. This must not happen. If derelict high street or commercial space is going to be made into housing, we need to address this gap in the legislation and ensure the space is of decent size and quality and is affordable for the community.

**If you require any further information, please get in touch with Angel Strachan on 0344 515 1182 or [Angel Strachan @shelter.org.uk](mailto:Angel.Strachan@shelter.org.uk)**

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<sup>7</sup> Onward (2018) 'Sharing land value with communities: An open letter' <http://www.ukonward.com/landreform/>