A Road Map to a Coherent Housing Policy

A report by Christine Whitehead, LSE London and Tony Crook, The University of Sheffield, with Kath Scanlon, LSE London.

Commissioned by Family Building Society

8 January 2024

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Introduction by Mark Bogard, Family Building Society

'The sky's the limit if you have a roof over your head'. Sol Hurok 1888-1974

Housing is one of the most fundamental things that a country must get right. It matters to everyone, every day and every night.

It impacts society on so many levels.

An environment for families to grow and thrive.

For children to learn and develop.

For adults to return to after work.

For elderly people to be secure.

Right now, it isn't working. Housing has been a benighted policy area for too long.

There is one very clear indicator - we have had 25 Housing Ministers since 1997 – 9 Labour and 16 Conservative.

This situation is unacceptable.

What needs to be done? How? And by whom?

The Family Building Society has commissioned a set of three reports examining all the issues with this one – the third - setting out a roadmap to a coherent policy framework.

Professor Christine Whitehead of the London School of Economics and Professor Tony Crook of Sheffield University, assisted by Kath Scanlon, have done an outstanding job in answering those questions.

They have drawn on decades of experience, hope and disappointment to produce a way forward that would actually work. They identify policies for both the short and the long-term.

It isn't even that difficult. Here are two headline items.

We need more focus on optimising the existing housing stock (99%) and perhaps not so much on the annual new building target (1%).

We need the Housing Minister to be one of the Great Offices of State, not a revolving door for temporary placeholders.

In addition, the report includes very powerful insights from Lord Heseltine and Lord Mandelson.

Their decades of experience at the highest levels in government, and their views of where things can change, demonstrate there is much on which politicians can agree and where there could be a consensus approach that straddles administrations of different hues.

This report does government's job for it.

Wise government, current or new, would start to implement it immediately.

The Family Building Society will monitor progress.

Mark Bogard

Chief Executive, The Family Building Society

Foreword by the Rt Hon. the Lord Heseltine CH

Of the nineteen years I served in Government seven of them involved housing and urban policy. In the commercial world I have been involved in many aspects of the property industry. How fascinating it has therefore been to read the LSE report on Housing Policy. Christine Whitehead and Tony Crook have painstakingly worked their way through the complexity of the challenges that face anyone anxious to meet the need for more homes.

The provision of decent housing is of the first priority. If people are to enjoy the sense of security that a home provides and the conditions that make life healthy, comfortable, and secure we are far short of meeting that ambition. The failure to provide adequate housing has serious cost implications for employment and the health service Disparity of income, of age and health will inevitably lead to a demand for different forms of tenure. Most people aspire to own but it is important to recognise that many cannot afford to do so or are in no position to shoulder the responsibility. Particularly, elderly people need more sheltered accommodation.

This report should be required reading not only for those with their hands on the levers of political power but also anyone interested in building a civilised society.

The report makes frequent reference to the need for more coordination of the agencies involved in housing provision. I share this view and I am at a loss to understand why so many of the lessons that have been learned seem to have been forgotten. Maybe the recent story of 16 ministers in 13 years has something to do with it!

The first lesson is this need for coordination. The second is to create an administrative structure with adequate resource and, third, to ensure someone is in charge. These criteria are met in most private planning applications but large-scale development and particularly redevelopment can be much more complex.

The most successful post war housing policy was the New Town legislation of 1946. This recognised that houses alone do not make desirable places to live. The challenge is to create homes where people want to live and recognise that neighbourhood, schools, environment, transport, and other social provision are essential in such a balanced community.

Each New Town had the ability to coordinate land acquisition and planning with the resources to get the job done. I modelled my urban development corporation on this precedent. They have transformed large parts of our cities, but their use has been far below the opportunity. The London Development Corporation should have been extended to the coast. The consultative committee that replaced it has no resources and no powers. In Liverpool the pattern was repeated without even a committee.

One of the least acceptable aspects of urban life are the slum areas. Everyone knows where they are. Their outstanding characteristic is that no one wants to live there. They need special attention. Based on the successful transformation of Cantril Farm into Stockbridge Village Trust in the 1980s I created City Challenge The model followed the same rules -someone in charge, the ability to coordinate, the resources to do the job and involvement of local people.

The demolition of the deck-access, rat infested Hulme Estate in Manchester remains a model of urban regeneration.

Regeneration must start not at a desk in London but in the communities where the opportunities and the demands exist. We have elected Mayors in many of our big cities. They need the power to create Development Corporations and to help provide social housing.

The Labour Government of the 1960s created a Land Commission to seek out and acquire land for development. Someone has to walk the streets and ask why the often unused or underused sites are not put to constructive use. This would bring pressure on owners of land currently held in private landbanks, by public bodies such as the Ministry of Defence and the Health Service and acres of above ground car parks. There are countless low density industrial sites that could be redeveloped or relocated. A positive approach to the green belt would involve its extension by ten acres for every marginal acre surrendered for housing.

We need to implement the Redcliffe-Maude proposals of 1968 and create unitary counties. These counties should have directly elected Mayors with the responsibility to agree housing targets with central government based on a strategic assessment of local need. The savings would be immense not just in manpower but in the elimination of a two tier planning system.

For 50 years I have been involved in the renovation of an English village and the conversion of redundant farm buildings into residential accommodation. I am absolutely committed to a planning system with tough protection for the heritage and the environment. I think the private sector could play a bigger part. Faced with a major property revaluation in order to replace the poll tax with the community charge I was advised it would take ten years to complete. I brought in the private sector, and we did it in months.

Professional companies could be licenced to design the simpler planning proposals. Such a licence would be of considerable value thus ensuring such a company would protect the integrity of the system. They would employ appropriate professionals and consult the planning authority as they prepared their plans. Such a plan would go to the authority with a time limited right of call- in. Any extensions to the time would involve a charge. Such a scheme would coordinate the decision making under one experienced person.

We need a plan of action and a radical redistribution of powers to local people.

Michael Heseltine

Foreword by the Rt Hon. Lord Mandelson, former First Secretary of State

For too long, housing has not assumed the prominence in policy debate and in election manifestos it merits. It is one of government's central responsibilities to ensure that the people of this country have decent, affordable housing and the sense of security this provides. A roof over everyone's head and the opportunity from that to grow, learn, build a life and make a positive contribution to the country's future.

There are very clear messages from the three LSE reports on housing and housing policy, of which this is the final and most important, which support everything we all see and far too many experience.

As a country, over many years, we simply have not done a good enough job in setting policies and in providing mechanisms to deliver the housing our country needs in the 21st century.

The reasons for this failure were laid bare in the first report "Why is housing policy such a mess?" There are many, but perhaps the best way to sum them it up is "lack of coherence" and "authority". Government is not joined up and that is a remark not aimed at any particular administration. Political focus is now on the role that Britain's planning system plays in this failure and I welcome this.

There should be a single, strong guiding hand to ensure that policies are consistent and do not pull in opposite directions. This must come from the top of government.

Also on any wish list would be greater cross-party agreement on the general thrust of remedies set out in this paper, some of which would be easier than others for parties of different persuasions. Continuity of policy is as important as getting policy right in the first place.

I will draw out two final points.

First, governments must stop looking for the easy headline by supporting demand side gimmicks that do nothing to deal with the underlying lack of supply of housing.

Second, the pre-occupation with headline-grabbing new-build targets is understandable but the record of failure to meet them tells its own story. Annual new build targets represent only about 1% of the existing housing stock. So there needs to be as much, indeed very much more, effort put into better use of the existing housing stock.

Facilitating downsizing, or "right-sizing", would be a far swifter way of easing some of the existing housing problems we face. And it can be done quite readily. For example, Stamp Duty Land Tax can be changed easily and its impact, as seen during the pandemic holiday, can be enormously beneficial in overall economic terms. It just requires a little creative thinking from the Treasury.

Professors Whitehead and Crook, supported by Kath Scanlon, have produced an outstanding report, commissioned by the Family Building Society.

I hope the government, and any who hope to form the next government, read it carefully and act on it.

Peter Mandelson

Executive Summary

Towards a more coherent and consistent housing policy

- Making the housing system work better is easy in principle but needs both immediate and long-term commitment.
- Improving the alignment of government policies and departments is vital to dealing with housing problems successfully.
- Housing policies must be accompanied by implementation plans agreed across government and their agencies and have the resilience to adapt to changing circumstances.
- Building more new homes is absolutely necessary. But there are also big and more immediate gains to be made from using the existing stock more efficiently.
- Dealing with under-occupation in the stock requires increased incentives to move, especially among the elderly. It also requires local plans to identify sites for suitable new homes for downsizers with varying needs.
- Introducing a less regressive system of property taxes would make a big contribution to achieving a better distribution of our existing housing stock. It would also give local authorities a much stronger financial base.
- To give us the best chance of building the new homes we need, every planning authority must have an up-to-date local plan with agreed mandatory targets. This would also foster the integration of necessary infrastructure, especially on larger new development sites.
- Contrary to current proposals, Green Belt boundaries should be carefully reviewed where more accessible land is required to meet housing requirements.
- Because there is a real risk that introducing the new Infrastructure Levy and/or Community Land Auctions would create delay and uncertainty, it is far more practical to simplify the existing system of planning obligations and CIL arrangements to ensure larger contributions.
- In the shorter term our proposals build on existing initiatives giving time to design and build capacity for necessary longer terms changes.

Developing a new Road Map

- The core to a coherent housing policy is to ensure that all relevant Departments and agencies work more closely together. This requires more structured interaction.

- Those developing policy must accept that the first objective of the Bank of England and the Treasury is macro-economic stability - which is anyway a prerequisite for enabling housing objectives to be achieved.

- Our initial proposals build on changes to which government and other responsible agencies are already committed or include measures which have been tried and tested in the past.

- In the short term the following changes would help produce more new housing, improve the use of the existing stock and help make housing more affordable:
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  - Complete local plan coverage showing where new homes can be built - as now provided for in the Levelling Up & Regeneration Act;

  - Provide help to expand sub-market home ownership provision e.g. by supporting shared ownership and First Homes policies;

  - Reform S106/CIL to ensure more effective provision of affordable homes and infrastructure;

  - Begin to use the tax system more effectively to improve the allocation of the housing stock, starting with second homes and short term lettings;

  - Carry forward the Renters Reform Bill to ensure greater security but also introduce a more workable approach to in-tenancy rent adjustments, ensuring appropriate decent homes standards and more effective enforcement procedures.

  - Waive SDLT for downsizing 'elders' to encourage them to move to suitable housing.

- The short-term objective is therefore to bring existing proposals together into a more coherent and consistent package. While some require additional resources, others raise funds and still others are investing in the future.

- Into the longer term it is necessary to build cross-department and if possible cross-party agreement about longer term objectives and feasible ways forward.

- These should concentrate on ensuring a more effective and distributionally acceptable use of the existing stock, making sure that land is available for a wider range of new developments and necessary infrastructure is provided.

- A prerequisite for this to occur is a stable flow of funds from local taxation. This can be best achieved by ensuring housing taxation is more closely related to housing value thus providing a fairer and more buoyant source of local government revenue.

- Housing policies should also be assessed in terms of the impact they have on investment, productivity and net zero requirements.

- Housing is an important part of the overall economy - it needs to be able to play its role.

Introduction

The objective of this final stage of our project is to provide a 'road map' towards a more coherent and consistent housing policy in England. To do this we take on board the lessons from earlier housing policy reviews (as set out in our stage 2 report, Whitehead & Crook, 2023a) as well as the core concerns described in our Introductory paper on '*Why is Housing Policy such a Mess*' (Whitehead & Crook, 2023b). These two reports emphasised the need for policy to be both more coherent (including between all relevant agencies) and consistent but that these twin objectives have rarely, if ever, been achieved.

The first report stressed that the complexity of housing policy requires government departments to work together but showed that this was not happening with current policy initiatives. Our second report, looking back on many post war housing reviews, showed that this incoherence and inconsistency was not a new phenomenon and that in past decades policy recommendations had rarely focused on how they could be implemented. What has changed in recent decades is the growing role and importance of many government departments, not just the one nominally responsible for housing.

Housing objectives

The overall objective of housing policy in the UK (and elsewhere) can generally be defined as 'ensuring that every household has a decent home at a price they can afford'. Over the years governments have striven to achieve this objective, both by demolishing and replacing or improving older homes and by enabling (and sometimes subsidising) new homes to keep up with the growth in household numbers. Whilst much attention is inevitably focused on targets for building new homes there are equally important issues in the existing stock of housing including price, affordability, access and acceptable standards. We address all these issues.

Currently government is facing particular challenges, both in meeting its own new build targets set in 2017 (MHCLG, 2017) and in addressing rising rent and mortgage costs as well as meeting longer term objectives such as net-zero provision. As we explained in our second report (Whitehead & Crook, 2023a):

- Government ambitions to build a net total of 300,000 new homes per year by the mid-2020s have not yet been met. Nor has the agreed need for new affordable homes.
- The long running post-war increase in home ownership has also stalled while the private rented sector has doubled since the turn of the century.
- Increasing dependence on the revived private rented sector and the now much smaller social rented sector has led to worsening affordability for renters and difficulties for the state in providing appropriate income related support.
- House prices have risen sharply (and have become more volatile) with implications for affordability. Younger households in particular are finding it harder to save for a deposit and to become owner-occupiers - but it also impacts on rents.
- Higher house prices have also led to higher values for development land which increases costs but also provides opportunities to 'capture' more of the uplift for infrastructure and new affordable homes.
- The low interest rates of the past decade (until very recently), together with increasing house prices, have kept costs down for existing homeowners and increased their wealth. The result in housing terms is an unprecedented scale of intergenerational inequality.

Current housing policy falls short of coherence and consistency in many ways

The current economic environment is extremely difficult and could well take a long time to improve. Whilst the Bank of England has long recognised the impact of the housing market on the wider economy (and introduced more rules on mortgage borrowing to manage this), its interest rate policy is inherently directed at the economy as a whole. The recent rate rises have led to higher borrowing costs for mortgagors and developers alike. The equally challenging fiscal environment, in terms of limits on government spending and borrowing, similarly restricts what government can do to support housing.

Within this monetary and fiscal context, the government has launched or is consulting on several new policies, some already given legislative authority in the Levelling Up & Regeneration Act, 2023. Unfortunately, while many are highly desirable, others do not match the desirable consistency and coherence objectives we discussed in our two earlier reports (Whitehead & Crook, 2023a, b). Much current housing policy is overtly party political, for example in making local authority housing requirements targets advisory. Other policies are over complex, such as the proposed infrastructure levy which at best further redistributes resources to richer areas and is expected to take ten years to introduce.

Recent government initiatives or proposals include:

- **Making local housing targets advisory only** whilst reaffirming its national target to build 300,000 new homes each year. This has slowed planning permissions and stalled local plan making and may lead to large reductions in local house-building targets and completions. The resulting reductions in new market homes will have a knock-on effect on the provision of new affordable homes.
- **Proposals enabling more permitted development in town centres** so that conversions of shops and offices to homes would not need planning consent. These developments while adding to housing numbers do not have to meet the standards required of new-build homes and make no contributions to infrastructure (such as schools and open spaces) or affordable homes.
- **Emphasising higher densities, brownfield and town centre developments** which do not reflect the preferences of most households. These can also be costly to build, reducing contributions to infrastructure and affordable homes.
- **Giving private tenants greater security of tenure** while introducing a series of tax increases on independent landlords, which reduce the incentive to invest.
- **Introducing a new infrastructure levy** to capture more of the increased land value created by planning permission without fully replacing the existing system of planning obligations, thus fostering greater complexity for developers and local authorities alike.
- **Requiring developers to protect or improve environmental features** such as nutrient neutrality, water quality, nature recovery, biodiversity and better design, and aiming for net carbon zero in new housing provision. These initiatives, involving several government departments, have significant benefits but limit the land available for housing and add to the costs and complexities of securing planning consent.

These and the other initiatives we review in the following sections generally have positive objectives. But each is treated individually and together in no way make up a coherent set of reforms. They have limited capacity to ensure the new housing we need in places where households want to live. As importantly few of them address the issues around a more effective use of the existing stock.

One valuable change in the Autumn Statement is the return of Local Housing Allowance (LHA) rates to 30% of local market rent. This will increase affordability for lower income households in the private rented sector. It should also reduce the numbers coming forward as homeless. However, it does little to address the enormous costs of temporary accommodation faced by local authorities who still receive only 90% of the 2011 LHA and will also be facing higher rents.

There were few other initiatives to support the housing system in either the Autumn Statement or the Kings Speech, while the key proposals in the reintroduced Renters Reform Bill (notably the ending of no-fault evictions) are in the main being deferred or, in the case of compliance with the Decent Homes Standard, removed.

Structure of the report

In the next sections of the report, we assess current policies and desirable changes covering (i) the existing stock, (ii) home ownership, (iii) the private rented sector, (iv) social housing, and (v) the planning system.

In the final section we discuss how to generate greater coherence and consistency, by identifying priorities and addressing immediate but within a strategic framework enabling more fundamental and consistent change. One objective is to create a framework for policies to address housing need and affordability that is resilient to political, monetary and fiscal change—something that has not been achieved at least in the recent past.

Assessing Current Policies

1. Using the Existing Stock More Effectively

Using the existing housing stock more effectively has to be the most important priority, if only because it makes up over 99% of the stock of housing and we are unlikely to be able to add more than 1% per annum consistently to that stock. At the same time, whilst there are more dwellings than households in most areas the ratio is one of the lowest in the developed world and there are not enough vacant and available dwellings to allow for desirable levels of household formation and mobility. The biggest issue is thus how to improve the distribution of the housing that is already available.

Areas of particular concern include:

i. Do older households live in housing unsuitable for their current needs, while stamp duty land tax and inertia reduce incentives to downsize?
ii. Is there a case for introducing further disincentives for people to own second homes?
iii. The transfer of homes (particularly private rented sector (PRS)) into short term lettings, especially in cities and tourist areas, is generating considerable problems for traditional renters living in these areas as well as for employers. While there are clearly both good and bad effects on local economies, is there a need for a more consistent policy?

iv. Into the longer term there is a strong case for relating local taxation far more closely to the value of homes. This would distributionally desirable and give local authorities (LAs) a better source of income to fund local services.

The Basic Numbers

Net additions to the housing stock in England at around 240,000 in 2022 were among the highest annual totals this century but still made up less than 1% of the total housing stock. New housing completions accounted for less than 0.9 %.

Importantly in terms of housing pressure, England has a vacancy rate of less than 3% which is one of the lowest in the developed world. According to OECD data only Iceland and Switzerland have similar vacancy rates, and in many European countries the figure is over 10%. The rates in England are arguably inadequate to allow normal turnover and mobility (particularly given regional variations in the rate). This shortage is reflected in the current pressures on rental housing across the country.

It can be argued that it is not the overall stock that matters but rather the active housing market. Thinking in these terms, net additions may account for as many as one in three transactions each year. New housing is thus a significant proportion of what is on offer to prospective buyers at any one time. But this in turn means that the offer is significantly restricted with respect to location, types of dwelling and built form and indeed price range. This of itself may be one reason why people are often dissatisfied by what they can find in the market.

The latest household projections for England (still 2018 based) suggest that the number of households is set to increase by around 1.6 million over the next ten years meaning that, even if the national target of 300,000 net additions is achieved, more than half of these additions will go to meet this increase – leaving relatively few to help reduce the backlog of unmet need. Yet we know that the number of adult children living in their parental home has increased by nearly 15% over the last decade and more than 20% of households in England have an adult child still living with them (ONS, 2022). This suggests that if the economy improves there will be increased demand for housing from those who would normally have been expected to form separate households earlier in their lives. There has also been increasing in-migration. Most importantly we know that, in addition to the demographics, it is higher incomes that increase household formation, so if the economy were to improve, we are likely to find housing market tensions increasing. It is the stagnation of the last decade that has kept the housing system in some sort of order.

All of this suggests that we need to use the existing stock more efficiently if housing conditions are to improve and pressures on house prices are to be reduced. There are several ways we can do this.

Incentivising Downsizing and reforming SDLT

Perhaps the most obvious benefits would come from older people being more prepared to downsize – making larger homes available to family households. Looking at three findings from the English Housing Survey's (EHS) 2020–21 survey (DLUHC, 2022), it is obvious that downsizing by older households could be good for the households concerned as well as for younger, family size households and the housing market in general.

First, the survey found that almost 30% of household reference persons were aged 65 or over - an increase of 20% since 2010. Thus, the decisions made by older households are increasingly important to the overall housing market.

Second, some 75% of older households own their own homes outright (up from 71% in 2010) so policies aiming at homeowners particularly impact on the elderly.

Third, and perhaps most importantly, older owner occupiers live in relatively large homes (on average nearly 110 sq metres). Yet over half of them live alone. Moreover, these homes are often inadequate, with 15% formally non-decent and over 60% with energy efficiency ratings of D or below. The dwellings are also often unsuitable for the occupants because over 40% of older households have a member with some disability.

The picture is therefore one which suggests that many older households would benefit from moving. They might also do well to realise some of their capital tied up in their home so that they can have greater financial freedom.

Why don't older households move more often to more suitable accommodation? In part it is because moving from their home (in which they have lived on average for 25 years) is a big decision and many want only to move if they need specialist accommodation. Finding a suitable new home in an acceptable location takes time and energy. As people get older the process becomes more difficult, and those over 80 hardly contemplate it. Yet, moves to more manageable homes, in the right locations, would be beneficial to many households' wellbeing as well as improving the efficient distribution of the overall housing stock. Getting the right size and type of home was the main reason why this age group contemplated moving – but many simply cannot find what they want.

A major disincentive to moving lies in the fact that movers will normally have to pay Stamp Duty Land Tax (SDLT) on the property they buy, although (and not well understood) any net gain from the sale is protected from future inheritance tax liability. Respondents to a survey undertaken by LSE London in 2017 (Scanlon *et al*, 2017) showed that the prospect of paying SDLT on the new home and the knowledge that the proceeds from selling their own home might be reduced because of the tax, was the second most important reason for not moving.

Downsizers therefore cannot buy a home that costs the same as their original house without spending money on the tax, while they can stay put for nothing. Many thus continue to live in homes that are highly unsuitable for their needs and impose additional costs on health and social services. It also reduces the demand for new housing suitable for older households and means there is less choice for those who do want to move. In this context, it is worth noting that the UK is almost alone in the developed world in having so few retirement communities which can both ease the moving process and help keep people healthier and connected.

The case for putting in place a more coherent policy approach to helping older people move is therefore strong. It would involve exempting downsizers from SDLT or at the least deferring it until death. It would also mean ensuring there is easily accessible information for those thinking of moving. Whilst exempting in this way may be seen as additional generosity to older households who, like all homeowners pay no capital gains tax on selling their own homes, this recommendation needs to be seen in the light of our other proposals below. These include ensuring all council taxpayers pay a more progressive tax on the value of their homes by bringing in regular revaluations to keep values up to date.

A more radical approach – which many economists advocate - would be to get rid of SDLT altogether as it reduces mobility across the board and adversely affects both the employment and housing markets (see Mirrlees et al 2011, on reforming property taxes more generally). As was seen during SDLT holidays (introduced to stimulate demand, especially for first time buyers) it also generates greater demand for products associated with moving house. Further, it would incentivise a better range of new build homes and increase levels of activity and productivity overall. Reducing the rates should however not be envisaged while the housing market is buoyant as it would be likely to increase house prices as happened at the time of covid related SDLT holidays. Rather, adjustments could be used to help stabilise house prices both in times of excess demand and in recessions.

Another policy that might be reviewed is the role of the single person discount on council tax which reduces the council tax bill for those living alone by 25%. This certainly gives the wrong signals to under-occupiers and also reduces the incentive to take a lodger. It is one more reason why people do not downsize.

Clearly in the current economic environment governments are not going to give up a source of taxation income easily, so exempting older households from SDLT should be accompanied by other tax changes which have more social benefit. One possibility might be to tax energy inefficiencies at the same time as introducing/maintaining support to help lower income households make the necessary investment. Other more broadly based approaches that could be used to generate the necessary tax revenue are discussed below.

Second Homes

Those households that choose to own second homes are reducing the stock of housing available for others looking for a primary home. They are also likely to be having a negative impact on the local economy as they will normally only live in their second home for short periods. This has been recognised in the Levelling Up and Regeneration Act which allows local authorities in England to charge a 100% surcharge on the council tax bill for a second home. In Wales this form of tax has been in operation since 2017 and is now being raised to 300%. In both cases it is up to the local authority to decide whether they introduce the charge. The case for local decision making here is strong but equally where there are significant housing shortages and large numbers of second homes the case for imposing some additional cost on second homeowners is clear. A further benefit could be that the proceeds of any surcharge could be used to help provide more new affordable homes in the area.

More generally accepted is the imposition of a council tax premium on long term vacancies. However, the evidence on successful collection is poor and avoidance all too easy - so while appropriate, it may be ineffective.

Short Term Lettings

The arguments around short term (Airbnb style) lettings are somewhat more complicated. Arguably short term lets enable many more visitors to go to popular tourist areas (as well as urban areas with significant numbers of workers coming for short periods). However, they negatively affect the supply of traditional privately rented accommodation in high demand areas, putting further pressure on rents. Although these lettings are not easy to monitor, there is thought to be very considerable tax evasion as well as concerns about anti-social behaviour by visitors, especially in localities where they dominate.

At present the rules applying to short term lets are locally determined. In London for instance a property can only be let for a maximum of 90 days per annum and only if one of the providers pays the council tax on the property. Otherwise planning permission is required.

The government has undertaken a number of consultations and are currently proposing a registration scheme (rather than licensing, which many advocate). One other possibility is a special use class for planning purposes but with permitted development enabled except in identified 'hotspots', e.g. national parks, where planning permission would be required.

Relating council tax more closely to value

While significant changes in how council tax operates would be politically unpopular the current financial position for local government is untenable and does not reflect the value of the property being taxed. Capital values have increased significantly but the tax arrangements mean that owners are often paying not greatly more than they were twenty or thirty years ago. Adjusting council tax bands to ensure that those with higher valued properties pay proportionately more tax would be distributionally desirable. Equally, when investment in local infrastructure leads to higher values, it is fair that households how benefit pay towards that infrastructure.

The objective would therefore be to increase the tax burden on those who have made unearned capital gains and increase the incentive for many to move to lower valued properties. Concerns that older people would not be able to pay could be dealt with by deferring payment until death. This means that the impact on the distribution of housing only develops slowly, and as new buyers enter the market.

2. Access to home ownership

England has long been seen as a nation of homeowners. Yet the proportion of owner-occupiers in the UK is now well below both OECD and EU averages having fallen considerably since the peak at the turn of the century and not since recovered. In 2000 over 70% of households in England owned their own home. In 2022, the figure was just over 64%. Importantly, fewer than 25% of households aged under 35 were owner-occupiers in 2022 compared with over 50% in 2001. The only alternatives for those who cannot afford to buy have been living at home with parents or paying high rents in the private rented sector. Yet, at least until very recently, outgoings for owner-occupiers have been lower than those for renters and, given falling prices and rising rents, this may well still be the case in many areas. In this context, the biggest issue for young people is how to build up the required deposit if they cannot depend upon the Bank of Mum and Dad or equivalent support (Scanlon et al, 2019).

Why should government support access to home ownership?

There are two main reasons why a government might support access to home ownership for those who can afford it:

(i) household preferences: people want the security of owning their own home for themselves and their children. Over 75% of those not owning wanted to own mainly for these security reasons as well as for longer term financial gains;

(ii) the timing of income and expenditure: the lifetime pattern of housing expenditure for homeowners matches most people's lifetime pattern of earnings – i.e. they buy when working full time and by the time they retire their outgoings are far less, especially in terms of mortgage repayments. This means less government support is necessary over the household's lifetime than for a similar household in the rental sector, not just because owners generally have higher incomes but also because their housing expenditure pattern is more in line with the pattern of lifetime incomes.

Issues around the mortgage market

The UK mortgage market has traditionally been rather volatile with mortgage interest rates varying immediately with the wider finance market. This has imposed significant risks on mortgagors when macro-economic circumstances change. As a result of the introduction of quantitative easing, interest rates fell to as little as 1.4% in 2017 and 1.5% in 2022. Thereafter however interest rates have risen rapidly resulting in large increases in outgoings for those on variable rate mortgages. Although an increasing proportion of mortgages have fixed terms, term lengths have generally been between 2 and 5 years rather than for the whole term of the mortgage as in the USA. The ONS estimated that over a million mortgagors came to an end of their fixed rates in 2023 and were immediately hit by much higher payments. Larger numbers will face similar problems over the next few years. This is likely to lead to significant increases in arrears. Whether or not these result in possessions depends on the extent to which mortgage providers are prepared to enable mortgagors to adjust payments to maintain their mortgage into the longer term. Post-2008, when the last crisis occurred, the government intervened to provide a range of mechanisms for alleviating the pressures on mortgagors. Currently, however, similar initiatives look unlikely.

A more fundamental approach to reducing risks would be the development of much longer-term fixed interest rate mortgages as is seen in the United States. This was contemplated by government in 2004 when they set up the Miles Report (2004), discussed in our second report, Whitehead and Crook (2023a). Instead, the system moved to the short-term fixed rates we see today. Miles himself, now a member of the Committee at the Office of Budget Responsibility, continues to press for longer term fixed rate mortgages to help stabilise the mortgage market. However, there are costs to both householders and the wider economy of being locked into long term debt because high charges for early exits may impede mobility.

Initiatives to support first-time buyers

The government would clearly like to increase the numbers of first-time buyers. However, the Bank of England's macro-economic stabilisation policy, based on increasing interest rates to control inflation, makes this extremely difficult. Equally, the likely long term fiscal costs of supporting care for the elderly and other priorities restrict what government can spend on supporting young aspiring homeowners. First time buyers currently make up about half of all new mortgages and around half of these purchasers are helped by their families. Unless the government is able to develop new initiatives, or the economy and therefore real incomes greatly improve, the number of first-time buyers will likely continue to fall. The key issue is how best to provide support which also adds to supply rather than to prices.

The longest lasting policy has been *shared ownership,* first introduced in 1980. This allows people to purchase a proportion of the equity in a home with the help of a mortgage while paying a sub-market rent to a housing association for the rest. Shared owners were expected to staircase up to 100% ownership as their financial circumstances improved. In the early years it was indeed the norm to staircase to 100% but this has become more difficult as the proportions initially bought have fallen and the costs of purchase have risen with increasing house prices. A range of small changes have been made to help a wider range of households and the government has continued to support home ownership through shared ownership as a significant part of the new build subsidies provided through its Affordable Homes programme and through S106 planning obligations. Housing associations have benefited through rising house prices on their share of the equity. There are further improvements that could be made to assist entry and it remains the most generally understood opportunity for many households (including single people and lone parents).

There have, however, been particular problems with respect to the valuation of some shared ownership flats arising from the issues surrounding leasehold and particularly the impact of the Grenfell disaster on recladding costs. These have been exacerbated by the extended inquiry and delays around proposed changes in leasehold legislation although the government has now committed to reforms announced in the Kings Speech.

Rent to Buy is a much smaller scheme, also provided by some housing associations. Potential purchasers first rent at an affordable rent while they save a deposit and usually must transfer either to full purchase or shared ownership within five years. Again, available properties are usually new build, although a landlord might agree to sell an existing home via this route to a sitting tenant.

In numbers terms, by far the most successful policy approach to supporting both home ownership and new build has been *Help to Buy,* introduced in 2013 in the face of low output levels after the Global Financial Crisis (GFC). Eighty percent of those helped to buy through this subsidised shared equity scheme were first time buyers (100% after 2021 changes). So far most have seen considerable benefits, as has the government who have so far made a good return on their 20% share (40% in London). The loan is subject to market interest rates after five years and at a time of higher rates this has increased costs to purchasers. The scheme was closed in March 2023, partly because of concern that it had led to increased house prices as well as the higher risks of a more inflationary environment. The government has so far not put forward any suitable replacement policy to support new entrants although there are now pre-election suggestions coming forward with respect to both a revised Help to Buy scheme and the development of a thirty-year fixed interest rate mortgage with government guarantees which would reduce the required deposit.

A rather different policy approach – but one seen in many other countries – was introduced in England in 2021 and is implemented through the planning obligations system. *First Homes* are usually provided as part of the S106 affordable housing contribution on larger new developments. First time buyers and key workers with limited incomes may purchase a First Home at a discount of 30% to market value, or sometimes as much as 50%. If they wish to move on, they must sell at the same discount at the time of sale. In this way the subsidy moves with the property and so the initial subsidy can continue to help several households over time. So far only a few thousand dwellings have been completed and sold but the policy has proved popular with potential purchasers.

Government direct support for first time buyers is thus currently limited to a small number of new build initiatives, mostly organised through housing associations. Existing owner-occupiers receive some benefits, mainly through the tax system (e.g. relief from capital gains tax when they move on and sell), but new entrants only benefit if they can raise a significant deposit and pay today's higher mortgage interest rates to enable them to purchase.

Overall

The capacity of younger households to enter homeownership has massively declined since the turn of the century – although the wish to own has not. Does this matter? The answer in part depends upon accessibility and cost of living in other tenures. In England options are limited to a mainly unregulated privately rented sector and a social rented sector which now accounts for only seventeen per cent of all dwellings. While there are a range of policies to help first-time buyers, they have been relatively limited and mainly restricted to new build properties.

Yet the lifetime benefits of home ownership both to individuals and to the government are obvious. Most households would have higher payments during working age and lower payments once the mortgage has been paid off. Even so it is a riskier environment than in the past, with increasing numbers of households still having significant debt on reaching old age, especially as products such as equity release allow the possibility of running down capital for many reasons other than housing.

3. Making Private Renting Work for Tenants and Landlords

Recent changes and challenges

During the latter part of the twentieth century private renting was a declining residual tenure (but also still a stepping stone for new households to become homeowners or social housing tenants). The private rented sector (PRS) housed only 11.5% of all households in England in 1979 when rent controls were finally abolished. Numbers of PRS dwellings hardly changed until 1996 when Buy to Let mortgages were introduced for PRS landlords. Thereafter it grew rapidly helped by house price appreciation, the sale of former Right to Buy housing into the PRS, and the difficulties facing first time buyer increasing demand for tenancies. By 2022 almost one in five dwellings in England were privately rented, making it the second largest tenure.

Only since 2012 has there been a revival in new build specifically for the PRS (once common in the inter war years). New 'Build to Rent' schemes, mostly funded by institutional investors, are mainly aimed at better off households, housing single people (including students) and couples rather than families with children.

House price growth has provided large capital gains for small scale individual landlords (who dominate supply). However, tax increases on individual landlords introduced from 2016/17 to help first time buyer owner occupiers compete with private landlords seem to have diminished the attractiveness of investing in buy to let property, although investment continues to take place by new as well as existing landlords.

There has been a marked changed in the profile of PRS tenants. The share that are families has increased with relatively more middle-aged and fewer young adult private renters than there were before the turn of the century. Both the average length of occupancy in the current PRS home and of residence in the PRS have increased with the average length of tenancy in 2019-20 being 4.3 years (Crook & Kemp, 2023). Despite this, almost all private tenants have short-term leases (normally six or twelve months) and private renting in England remains characterised by insecurity of tenure. The steep increase in house prices and 'tougher' mortgage regulation have increased the minimum deposit needed for house purchase, hence increasing numbers of households have no choice but to remain in the PRS. Although median household incomes in the sector in 2020/21 were over 80% higher than incomes in the social rented sector they were still below 60% of income among homeowners with a mortgage. A third of all private tenants claim housing benefit reflecting significant affordability challenges for many.

Addressing the challenges: the Renters (Reform) Bill

The PRS will continue to be major part of housing provision for many years to come including for families as well as those entering the housing market for the first time. Given the challenges of expanding the alternatives, including home ownership and social housing, it is inevitable (and important) to find ways of supporting tenants and landlords to make what is available affordable, secure, decent – and a competitive investment for landlords.

After some years promising changes to address insecurity, rents and conditions, the government's Renters (Reform) Bill has been re-introduced in the new session of Parliament.

The Bill replaces Section 21 of the Housing Act 1988, which allows landlords to issue 'no fault' evictions with very limited notice. This creates a great deal of uncertainty for tenants, especially in the current tight housing market, and leads to a significant proportion of homelessness applications, particularly affecting family households. The law will abolish Assured Shorthold Tenancies where initial contracts were generally for one or two years (although subject to S 21). It will replace them with periodic tenancies allowing tenants to remain in their property for as long as they like, subject to quite a large number of exceptions – including if the landlord wants to sell or tenants are in arrears. The exceptions are similar to those in Scotland where some have proved difficult to evidence (Indigo Housing Group, 2022). The government has now announced a pause in the abolition of S21 until reforms in the court system enable landlords seeking possession to get timely consideration of their cases.

A key difference from the system in many other countries is that the Bill includes no mechanism for setting rents within the tenancy but rather leaves rent increases to be determined between the landlord and tenant at market levels with an appeal system for the tenant. This is likely to prove difficult and costly to implement.

The initial proposals requiring properties to meet the Decent Homes Standard, but this has not been included in the Bill now before Parliament. If they are finally included, they are likely to be costly for landlords nearer the bottom end of the market – including those whose properties house homeless households. There is also no evidence that government will help fund the enforcement of standards. Instead, this is the responsibility of already hard-pressed local authorities who are likely to find it extremely difficult to provide the necessary resources. The economics of providing decent homes to low-income households and making competitive returns does not really 'stack up' for many private landlords. Currently there is nothing to stop landlords letting poor standard properties unless local authorities take enforcement action to put things right, usually after tenants complain. But many tenants accept poor standards as they worry about losing their tenancy if they complain.

The Bill, even in its current partial state, has been a long time in coming, breeding concerns among buy to let landlords as to whether to sell up, especially given the negative effects of tax changes on individual landlords brought in piecemeal since 2015. These have reduced the tax allowance for interest payments to the basic rate of tax, increased stamp duty on buying new homes to let and increased the tax on capital gains. They now make UK's private landlords the most tax disadvantaged in all developed economies. Surveys suggest that large numbers of smaller landlords are thinking of leaving the sector because of these and other changes, but specifically, because their costs are going up more than their rents – even though rents are rising rapidly.

The current evidence is that right across the country demand is outstripping supply and rents on new lettings are increasing rapidly with large numbers of people chasing every vacancy. Certainly, the numbers of lettings being offered via mainstream portals such as Rightmove are currently far below their usual levels (Rightmove, 2023). Partly this is because existing tenants are staying longer; partly because in a tense market there are other channels (such as word of mouth) which may be a cheaper way to find new accommodation, and partly because properties are being used in other ways including for short term lettings. Importantly, although many smaller landlords are expected to sell up, it is far less clear to whom they will sell (London School of Economics and Savills, 2023). What is clear is that currently the sector is out of equilibrium, with problems for both tenants and landlords.

The Impact of current macro-economic and budgetary conditions

One of the immediate issues is that most Buy to Let landlords with mortgages tend to have relatively short interest-only fixed rate mortgages. These rates have been particularly low over the last few years, but inflation and the Bank of England's recent interest rate increases have changed this. Many landlords facing these large rate increases argue that they can no longer cover their outgoings, including the costs of new statutory responsibilities such as energy efficiency. This is expected to spur many of them to get out of the market unless house prices fall significantly. Whether this will just change the mix of landlords or result in a net decline in the sector is at this point unclear.

Another concern is the future of income-related housing support. Local housing allowances, which cap the amount available to low-income households to pay their rent, have been frozen since 2020 and will remain at these levels until April 2024 when the cap will revert to 30 percent of local market rents. Given how rents have risen this means that more and more lower income households are having to find additional money from their own pocket to cover their rent. Many tenants will be going into arrears but equally many landlords may not increase rents for existing tenants leading to lower returns – both reasons for leaving the PRS.

Looking to the Future

At least into the medium term we need a stable PRS able to provide for the full range of incomes and being seen as a significant mainstream tenure. Buy to Let landlords who have made up the majority of the large increases in the size of the sector since the mid-1990s may not be the answer into the future.

Their place may be taken by larger more entrepreneurial landlords. The government has, through its tax changes, made it beneficial to organise as a commercial business rather than an individual, although individual landlords moving into a corporate structure do pay a tax penalty. It is a key government aim to increase the build to rent sector –owned by corporate landlords with institutional funding and professional management. But there has been only a modest amount of such new construction. Whilst the big institutions have traditionally owned commercial property as part of their UK assets, residential has not figured much at all. Recently this has begun to change (including from overseas investors), partly because the (still quite low) returns from PRS investment became more competitive after the GFC as returns from other assets declined. Indeed, PRS total returns have exceeded those on equities and on commercial property making build to rent an attractive proposition. A fifth of all new homes in London in the five years up to 2021 were built for the PRS and some 200k new such homes were in the pipeline throughout UK as of 2021 (Crook & Kemp, 2023). The current downturn in the housing market has led to some additional transfers. There has also been some conversion of former offices into residential flats but the standards have been generally low and investors have not contributed to the necessary local amenities such as education and open space.

In the shorter term we need changes to create a more workable, affordable and competitive PRS. The following could help but offer challenges both for government and for landlords themselves:

- implementing the current proposals in relation to security of tenure but at the same time introducing a formula for rent changes once an initial tenancy has been agreed;

- keeping the maximum local housing allowance at 30 percent of local market rents, as now re-established in the Autumn Statement but also adjusting the welfare cap which particularly impacts on larger families;

- obliging landlords to meet an appropriate Decent Homes Standard and ensuring local authorities have the resources to monitor and enforce these standards;

- ensuring the taxation system for private landlords is aligned with business taxation, which would help landlords to make a reasonable return in the context of greater security of tenure and paying for higher standards.

Overview

In the short to medium term, it seems likely that the private rented sector will remain as the second largest tenure accommodating a wide range of household groups. Demand now far outstrips available supply, generating significant upward pressure on rents. It also reduces people's ability to form independent households and to save for a deposit to become owner-occupiers. These effects are unlikely to be short lived. The Renters (Reform) Bill, while well intentioned, may prove to be inadequate for both landlords (who will face stronger regulatory constraints) and tenants (many of whom cannot afford their rent without additional assistance). Finding a way forward will be a major challenge for the next government.

4. Social housing

Context

In 1979 there were some 5.5 million dwellings in the social rented sector – the vast majority owned by local authorities – providing 31% of the housing stock in England. Thereafter, local authority output levels fell away and were overtaken by housing association new build from 1990.

The local authority stock declined mainly as a result of the Right to Buy with almost two million such sales between 1980 and 2022. By 2008 housing association stock had overtaken that owned by local authorities (including stock transferred by local authorities) and by 2022 associations owned over 60% of the social housing stock. Taken together the sector consisted of some 4.15 m dwellings - 16.5% of the total housing stock in England, thus little more than half its proportion in 1979.

To give some idea of how these numbers relate to housing need, it is useful to look at changes in the distribution of net incomes during the same period. According to IFS analysis in 1979 the net household income of the top 10% of households was around 3.2 times that of the bottom 10%. During the 1980s that ratio widened significantly, reaching a factor of over 4.4 in 1991. Thereafter it has remained relatively stable, although falling to around 3.9 in 2020, in part because of Covid-related support (Brewer & Wernham, 2022). Simplistically, a more unequal distribution of income suggests that more households need assistance with their housing costs than in former years when sub-market rental housing accounted for nearly one in three dwellings.

The big change in terms of housing assistance was the introduction of income related housing benefit in the form of rent rebates to social tenants in 1972 and rent allowances to private tenants in 1973. These developed over the years into the current housing benefit system. This shift towards demand side subsidies broadened the range of households receiving assistance very significantly. But it also shifted the financial costs away from the relevant housing department to (what is now) the Department of Work and Pensions which had different objectives. Taking benefits into account, ONS data suggests that social tenants pay around 15% of their incomes in rent while private tenants pay nearly a quarter, with many paying much more. As a proportion of their incomes mortgage holders' payments are similar to those for social tenants – although of course their payments in absolute terms are much higher and also vary considerably.

The Role of Housing Associations

Housing associations now own the majority of the social housing stock, and range in size from Clarion, with 125,000 properties across the whole country, to small local associations dealing with particular communities and/or providing specialist housing. Associations are now funded through a mix of government grant, private capital and contributions from developers and landowners via planning obligations. The debt carried by associations is normally at relatively low rates of interest because of associations' strong regulatory environment and the quality of their assets.

Particularly after the GFC, the government urged associations building homes to work with private developers (or themselves to undertake mixed schemes) where the profits from the market element could be used to cross subsidise social and affordable housing. This has become the major financing model for new build in the sector but increases its risk profile when, as now, the market turns down. Whether this model can be maintained is unclear.

For many years the main role of housing associations was to build new homes – a relatively straightforward process. More recently they have tended to build affordable and shared ownership homes rather than concentrating on social rented dwellings which need considerably more subsidy. This latter trend has been exacerbated by the tendency for developer S106 planning contributions to be in these forms of tenure. Critically, funding new homes for housing associations has become increasingly dependent on S106 obligations and the ability of local authorities to negotiate with developers to make this provision.

Associations have also taken over large quantities of existing local authority stock which often requires very considerable improvement and renovation. At the same time required standards – e.g. on energy efficiency - are rising across their whole housing association stock. They are having to find the resources to undertake this necessary investment in the existing stock, to address the costs relating to the Grenfell tragedy, to make the investment necessary to meet net zero requirements. All these urgently needed investments require funding which inevitably compete with the funding for new homes and impact on their risk profiles.

The Affordable Homes Programme

The government's main direct means of subsidising new build is through the Affordable Homes Programme which sets out five-year funding programmes negotiated with lead providers (often housing associations) by Homes England and the Greater London Authority. The current (2022) programme was intended to provide 185,000 units across the country, of which sixty percent would be at social/affordable rents and forty percent would be shared ownership. Much of the programme was negotiated before the macro-economic conditions changed so radically in late 2022. How the programme will be reorganised in the light of changes in the financial markets and the costs of provision is as yet unclear, but it is known that some monies have had to be returned to the Treasury and it is probable that the numbers that will be achieved will be considerably lower than original expectations and take longer to build. There is also a possibility that more of the funding may be delegated to mayoral and county combined authorities. The recent Autumn Statement decisions suggest that there will be at best no more capital funding for affordable housing in the near future implying a decline in real terms.

S106 and the proposed Infrastructure Levy

Planning obligations are a key contributor to new affordable housing. Section 106 of the Town and Country Planning Act 1990 formalised a policy which some local authorities had already tested by which permission to build could include negotiated agreements on providing proportions of social and affordable housing. Considerable sums have been raised: in 2018-19, for instance £4.7 billion helped to provide half of all new affordable homes that year. The government is currently intending to replace this approach with an Infrastructure Levy which will be based on the market value of the development at the time of completion. We deal with this in the next section.

Local authorities' responsibilities to homeless households

Local authorities are required to provide temporary accommodation for households who are statutorily homeless. It may be from their own stock or from within the PRS. With over 100,000 households now in temporary accommodation, this is an increasingly large responsibility. Local authorities first try to prevent homelessness by accommodating the household in the PRS, often paying incentives to landlords to make lettings available. Households becoming homeless are placed in temporary accommodation (TA). Local authorities take out long-term leases on some PRS homes to use as TA, but often they pay by the night or, at the limit, accommodate people in hotels. Over the last few months, the use of hotels has increased because of the lack of available lettings as well as competition from other bodies with responsibilities for housing people, including the Home Office. There are government grants towards the costs of TA, but restricted LHA payments per household. Costs have increased so rapidly that many authorities now face large bills that have to be paid from their general needs accounts. This is of major concern and will again require central government support unless pressures at the lower end of the privately rented sector ease significantly over the next few months – which seems unlikely.

The funding dilemma

Given the tight fiscal context facing the government (and any incoming government) it seems unlikely (however desirable) that there will be increases in grant funding for new homes through the Affordable Housing Programme. Some local authorities are building new social housing using their borrowing powers (Morphet & Clifford, 2023) but their capacity is limited and depends on rental levels that can support borrowing costs. Planning obligations have secured around half the new affordable homes - and they are likely to remain an important source of funding. Changing the mix from affordable rent and shared ownership to more social housing within the planning obligations total would be desirable (and seems supported by government and opposition) but without more grant funding will need landowners to accept less for their land. This in turn might well have a knock-on effect on what developers will be able to provide towards the necessary infrastructure.

5. The Planning System

Context

The general principles of the planning system in England have been in place since the Town and Country Planning Act of 1947. Unlike many other countries the Labour government did not nationalise land but instead brought all new development under administrative control, through local authority individual planning permissions. This general approach, despite many attempts to modify the system, has mainly remained in place ever since.

In 2020 the government published a white paper, *Planning for the Future* (MHCLG, 2020), which endorsed a simpler, rules-based local plan system. Such a system it argued could be established much more quickly than the time-consuming local plan process and would provide greater certainty, including replacing negotiated developer contributions with a simple mandatory levy. Three years later, after multiple consultations (some of which are continuing), the Levelling Up and Regeneration Act, 2023, has abandoned the initial approach of a rules based (quasi zoning) system. Instead, the local plans system is to be made mandatory and modified to simplify and speed up preparation and adoption - although the details of how this is to be done are still subject to consultation. What is important is to secure adopted local plans throughout England providing clear frameworks for developers and planning authorities alike and to ensure decisions are made in a timely and efficient manner. Without this the planning system defaults to case-by-case determination, more appeals and ministerial call-ins, all of which add to delays and uncertainty (CPiAP, 2023).

Housing targets and local plans

A key role for planning in housing provision is to ensure land comes forward for new housing development to meet requirements and to support the provision of necessary infrastructure so that new homes are built when and where they are needed. Local plans have been critical to this objective.

Based on assessments of future requirements local plans make provision for development land by allocating specific sites and by setting out policies by which sites not allocated in plans will be dealt with if developers bring them forward. Once a local plan is adopted, planning authorities are obliged to make decisions on planning applications in accordance with the plan and any other material circumstances. The plans themselves must take account of national planning policy and have required planning authorities to co-operate with neighbouring authorities, partly because housing market areas overlap authority boundaries.

To make this numbers-based system work, there must be agreed targets for new housing provision and up to date local plans that set out where the requirements are to be met. To this end the government has set out a national total requirement for new homes, which is then split down into local targets. The current methodology (the 'standard method') for local targets combines demographic and economic assessments, the latter to ensure that market pressures are reflected in housebuilding targets (an approach originally recommended in the Barker review of housing supply (Barker, 2004; Crook & Whitehead, 2023a). Even so, the emphasis remains simply on the numbers of units required, rather than any likely effect of these numbers on local house prices and affordability. The national target of 300,000 net new homes per annum by the mid- 2020s has been in place since 2017 (MHCLG, 2017) despite changes in the number of households and in affordability. Importantly it is only in the last six years that more than 200,000 homes per year have been consistently completed, so to build a net 300,000 is a major stretch.

Recently the government has made significant changes to this approach which will make achieving the goal even more problematic. First, additions to the standard method were introduced through a 35 percent uplift in the numbers required in twenty of the most populated and urban cities and towns. No justification nor supporting evidence were given for the uplift in these numbers.

Second, the government, under pressure from its MPs representing mainly Southern constituencies, has decided (as announced in the recently revised National Planning Policy Framework) to make the targets advisory rather than mandatory. These targets will be a 'starting point' in local plan decisions but other factors will mean that achieving them will no longer be necessary. Much greater emphasis is to be placed on factors such as capacity, character and density. Moreover, provided they have plans in place, planning authorities will no longer be required to have a rolling 5-year supply of developable land or to review Green Belt boundaries as ways of finding the land to meet needs. They will still be required to meet their locally decided targets and government has recently announced that it will take measures if targets are not met.

Whatever approach is taken to measuring and allocating need targets, they clearly must be set out in up to date (i.e. adopted within the previous five years) local plans. Unfortunately, 60 percent of local planning authorities in England do not have an up to date adopted plan. There are several reasons: plans have become enormously detailed in scope, deal badly with uncertainty, and take a long time to prepare and adopt (CPiAP, 2023). Such can be the length of time involved that even adopted plans are often nearly out of date by the time of adoption. Moreover, even if the plan is adopted, our discretionary planning system allows applications to have regard to other material circumstances including changes in national planning policy.

On a positive note, the Levelling Up & Regeneration Act now requires all local authorities to produce statutory local plans and to keep them up to date through regular review; second it requires more emphasis to be put on adopted local plans when planning authorities are making decisions; and it creates a system of centralised development management policies with which all planning authorities will have to comply when deciding on planning matters. The government believes this will reduce the need for excessive detail in local plans.

Whilst in principle these local plan changes should help provide more policy clarity for housing developers, there is evidence that local plan preparation has now stalled and that the shift to advisory targets has led to lower targets being considered. The delays are not just a consequence of the target changes but also of the changes being required to plan preparation processes in the Levelling Up and Regeneration Act, including with respect to planning obligations (see below) and the National Planning Policy Framework.

The move to mandatory local plan provision is to be welcomed but targets will remain difficult to agree. Moreover, local targets should not be agreed in isolation. Ideally, we might look to mayoral authorities and combined county authorities to promote the research and cross-boundary collaboration needed to agree targets and to integrate these with the funding mechanisms for required infrastructure.

Planning permission and new homes

Planning officials and elected members often face fierce resistance to new development, so we need ways to secure more support for new homes. Poor design and inadequate services seem to be key factors in this local resistance. Importantly national planning policy now requires planning authorities to refuse permission for bad designs and designs that breach local design codes. The government's intention to provide national development management policies which all planning authorities will have to adhere to runs the risk that local circumstances will be ignored.

While the planning permission system included the possibility of permitted development (PD) as early as 1948, it has really only become important since 2015. Initially it was seen as a way of ensuring that cases of small-scale development did not clog up the planning system. It works by central government prescribing those types of development that may proceed without securing individual planning permission from local authorities. This long-accepted approach to small-scale *de minimis* types of development has now been significantly extended to enable the conversion of many commercial buildings, including offices and shops, into residential accommodation. Government sees it as helping to provide more new homes and to assist with town centre regeneration. But because these are treated as permitted development local authorities cannot currently negotiate with developers to secure planning obligations to provide the infrastructure needed to support these new homes. More fundamentally it makes it difficult to secure a more strategic approach to ensuring appropriate supporting infrastructure and community benefits including affordable homes.

In a more welcome development, government now proposes to give local planning authorities the power to require planning permission to deal with emerging albeit localised problems of *second homes* and *holiday lettings*. In these areas many people in low-paid work in cities and tourist areas find it impossible to live locally. The proposals to increase council tax to be paid by second homes owners and to hypothecate the income for affordable homes are to be welcomed; as are proposals to make short term lettings subject to planning permission; and the potential for introducing requirements in adopted neighbourhood plans in popular tourist areas that new homes must be occupied by local people.

Planning and land value

Capturing land value to pay for infrastructure and affordable homes has become increasingly important. Until the 1990s the system of making sites available for development and the funding for their delivery were largely separate. Planning authorities allocated land for development taking account of housing requirements, the market set land prices, and financial mechanisms, including government grants, provided the funding for construction.

From the late 1980s/early 1990s this system gradually changed. Central government endorsed local authority initiatives to set out in local plans what was needed from developers to make development acceptable in planning terms. Under this cost-based planning obligations approach, developers and local authorities negotiated how the former should contribute to the costs of infrastructure and provide affordable homes. These homes would be sold on at prices that were affordable to housing association tenants and shared owners. Because of the costs of meeting obligations developers pay less for the land they need and thus constituted a *de facto* means of capturing the increased land value resulting from planning policy and permission. Although not always straightforward, significant sums have been raised – e.g., £7bn was agreed in England in 2018-19 of which £4.7bn was for affordable homes, funding half of all new affordable homes that year. The rest was for a range of both site- and non-site-specific infrastructure secured through planning obligations and a flat rate Community Infrastructure Levy. The system captures about a third of the development value creating by planning permission. The system has worked best on greenfield sites and where the market is vibrant.

The government is now introducing a mandatory Infrastructure Levy to replace the planning obligations system, based on final sales values of completed development. It claims this will be simpler than the existing arrangements and help SME builders. The government is thus moving to a more explicit and partially hypothecated land value tax. They intend that it will secure at least as much funding and new affordable homes as currently. Nonetheless, it will still be a complex system.

Local authorities will also have to borrow to finance necessary infrastructure against the future flow of levy receipts and must draw up infrastructure delivery plans with other infrastructure providers. The levy income can also be used for a much wider range of purposes than just infrastructure and affordable housing.

What originally looked like a simple mandatory tax with a single rate has become a much more complex system with multiple rates that are to be locally determined and locally spent. In addition, the government has now decided to retain the current planning obligations arrangements for large and complex sites and for some infrastructure on other sites.

Given these complexities the new system may well not secure significantly more funding than currently raised, will work best (as now) on greenfield sites in southern England in high house price area. Crucially in terms of fund raising, introducing the new system conflicts with the government's aims to focus more new housing on brownfield and city centre sites which are particularly costly to develop.

The system will also take a long time to roll out (a decade under current plans). Arguably, simplifying the current system with clearer local plans, more fixed tariffs for obligations and encouraging partnership arrangements to develop large and complex sites could be a much easier and more cost-effective solution (Boyle *et al*, 2022).

Overview

Partly because of the many changes all taking place together, the Levelling Up and Regeneration Act of 2023 often appears incoherent. It is also in many ways inconsistent with the government's stated policies about how much housing to build and where to build it. Given the timescales necessary for change to bear fruit it may well be better to introduce, as set out above, a simplified but mandatory local plan system while retaining a modified existing S106/CIL system rather than introduce an entirely new levy.

What a coherent and consistent housing policy might look like: a road map

General Principles

A road map for housing must consist of two distinct strands:

(i) Showing what needs to be done to help government as a whole understand the consequences for housing when introducing macro-economic and other policies. Policies should support housing investment and productivity; and take proper account of longer-term environmental issues. Most importantly it should improve the distribution of housing and housing wealth to ensure that the fundamental objective of a decent home for every household at a price within their means can realistically be achieved over the next decades.

(ii) Clarifying how the existing system can be made more coherent and consistent with the available resources better employed. In this report we have identified a wide range of current inconsistencies, at least some of which could be addressed by immediate measures within the first years of a new parliament.

At the macro-economic level any housing policy must accept that the first objective of the Bank of England and the Treasury is macro-economic stability - which is anyway a prerequisite for achieving housing objectives. Importantly, over the period since the GFC, the Bank of England has moved a long way in understanding the likely consequences for housing of interest rate and regulatory changes, and as a result some of the more negative impacts have been mitigated. The Treasury holds the purse strings and there must therefore be a clear interaction between it and other relevant government departments with respect to proposed major changes in housing policy.

If housing policy is to be coherent there also needs to be close and positive relationships between DLUHC and a number of other departments. In particular, decisions by the Department of Work and Pensions directly affect affordability for a large proportion of tenants as well as impacting heavily on the costs to local authorities of meeting the needs of homeless households. Similarly, there need to much closer relationships between housing and health and social care, not just with respect to bed blocking and providing care support at home but also more fundamentally in creating housing conditions which take more account of the needs of older people. Again, local authorities have a major role to play and must be involved in policy making. They also need new sources of funds. The Department must also interact with the Department of Environment, Food and Rural Affairs and related organisations, as well as other parts of DLUHC that handle effective spatial strategies and the provision of infrastructure.

The second strand has been the main subject of this report – identifying current major inconsistencies and incoherence. In this final section we draw these together and make some suggestions towards improving the potential for a coherent housing system.

A final general point is that the road map must be realistic in identifying objectives that can be realised, together with the mechanisms necessary to achieve them. This problem has been most obvious with respect to chasing unrealistic new build numbers without making adjustments that might actually make achieving them possible. A small number of achievable goals makes a lot more sense than spreading the net too widely.

Identifying the starting point

Given the Levelling Up and Regeneration Act is now law, it should be built upon. The agreed starting point must be to put in place a simplified local plan-led system in all local authorities. These plans will need to include targets for new construction, without which resource planning, including for infrastructure, becomes difficult, in terms of both land and finance.

Core housing policies need to be accepted across the public sector given the complexity of interrelationships and the impact that ‘non housing’ policies can have. Taxation policies that affect housing must be consistent with housing policy objectives and funding requirements (and vice versa). Local government has a key role to play alongside central government and its policies will need to be in line with those of central government.

Making the use of the existing stock as efficient and as affordable as possible is just as important as building new homes. It can also have more immediate effects.

Both objectives and policies need to be as resilient as possible to changing circumstances but also to look ahead and design in the potential for adjustments that might be necessary in the light of foreseeable scenarios.

Policies need to be introduced in sequence, with those that can be implemented easily introduced first, together with policies that prepare the way for more fundamental changes.

What might 'better' look like?

Here we draw together the threads of our commentary in each of the previous sections and then identify what should be done as soon as possible and then what needs to come later once the first steps are in place.

Making the existing stock more efficient:

The existing stock accounts for 99% or more of the total stock at any one time. How it is used and paid for is therefore fundamental to any successful housing policy.

Those aged 65 years or over should be exempt from SDLT. This would encourage older households to release their homes for larger households, including families, and in many cases could help to reduce the need for care. This could be implemented immediately.

Local plans should then make provision for new homes that are suited to the needs of 'downsizers'. Much of such provision could be in conversions in city-centre locations with good local services, a model that works well in other countries.

As is already under discussion, SDLT and council tax on second homes should be raised and consideration given to allocating the income to the provision of new social and affordable housing.

Also as is already proposed, planning permission should be required on the change of use of houses into short term lettings in specifically defined locations.

Having taxes that work for more housing:

More fundamentally, consideration should be given to relating council taxes more directly to housing values. Council tax bands should be revalued so that the beneficiaries of higher prices (often created by new infrastructure) make appropriate contributions. The additional receipts would be available to support new housing as well as local government costs more generally, not least in dealing with the homeless and enforcing more appropriate standards in the PRS.

Developers should continue to pay towards infrastructure and provide affordable homes on market sites through amended and simplified S106 rather than introducing a new and complex sales tax (Infrastructure Levy) to replace planning obligations.

Consideration should be given in the longer term to abolishing SDLT and replacing it with a fully revised local housing-based taxation system. This would incentivise employment related mobility; help decrease the current incentives to under-occupy; and raise more local funding. Abolition should be timed to avoid stimulating a rising market.

Supporting home ownership

Most households' long-term aspiration is to own their own home, and this makes sense from a societal point of views since it reduces housing costs when homeowners retire, as long as they have repaid their mortgages.

In the short term, given current economic and financial constraints, some appropriate stimuli to building new owner-occupied homes may be desirable. These might include carefully revised and more targeted versions of 'Help to Buy'; fostering more shared ownership products; and emphasizing the provision of First Homes via both home builders and housing associations.

Any such stimuli need to be reflected in up-to-date local plans setting out where and how much to build.

Over time, more long-term fixed rate mortgages could help provide greater stability in the market for homeowners and reduce market volatility. Meanwhile, thought should be given to whether there is adequate support for those who fall into mortgage difficulties – any increased support should be negotiated with mortgage suppliers.

A more effective and affordable private rented sector

The PRS will continue to house large numbers of households unable to access other tenures as well as those for whom it is the best option. The government's current proposals to amend the regulatory framework, including longer term security should be implemented. But government also needs to address the issue of rent determination within the tenancy based on an acceptable index instead of having to rely on individual determination by the courts. Local authorities should also be supported in enforcing adequate standards as determined by the Housing Ombudsman.

The substitution of short term lets for traditional rented housing is seen as a particular problem in tourist areas impacting negatively on local employment and productivity. The current government proposals concentrate on planning permission. Another possibility would be to re-assess the tax benefits that many short-term lettings hosts receive.

Changes in rent allowances are also needed, particularly local housing allowance limits and the welfare cap. This will require more interaction between DWP and DLUHC. Into the longer term it will be necessary to address the most appropriate mix of supply and demand side subsidies, both to achieve higher housing output levels and to help with rent payments.

Changes to the taxation of different types of private landlord should also be reassessed to ensure that appropriate incentives are in place. More build to rent with institutional funding should be supported, including through planning frameworks that promote appropriate sites and tenure mixes in new developments. As noted above this could include development in town centres, targeted in part at 'downsizing' owner occupiers. More build to rent would also support homebuilders who would then be less dependent on the usual build and sell model which tends to exacerbate volatility.

Creating more social rented housing

Given the current distribution of income, the case for increasing the numbers of social and affordable rented homes is clear-cut. This will of necessity involve larger programmes, funded in part by central government – but with the benefit that it will increase the supply of housing into the longer term and cut the bill for income related housing allowances.

Developer (S106) contributions should also continue to secure affordable homes although changes in the current system need to be simplified and make outcomes more predictable. A fully working local plan system should make this much easier to achieve. The currently proposed infrastructure Levy on the other hand could lead to disruption and under-delivery during the decade-long phase-in process.

One new policy which the government is currently supporting is that local authorities facing increasing numbers of homeless households should acquire ex- Right to Buy and other properties which can be used to meet their need for temporary accommodation. On current evidence, this appears to be cost effective for local authorities and provides longer term temporary accommodation.

Targets and local plans

Targets should be realistic. The current target of 300,000 net new additional homes per annum has little basis in the evidence. Nor has it been achieved since the years when local authorities provided around half of all new output. The numbers have however been better over the last few years, in part because of permitted development. However, output rates have now been knocked back because of macro-economic conditions. The basis of the target should be reassessed, including clarifying the proportion that should be social and affordable homes.

Public funding should be identified to secure the infrastructure and affordable homes needed to support the achievement of these targets. This is likely to include the need to address the basis of local taxation – in particular, the possibility of relating local taxation more directly to housing values.

Construction of new affordable homes should be used in a countercyclical way when macro-economic changes reduce private sector output. Sub-national targets need to take account of regional and sub-regional requirements. Existing bodies, notably mayoral and combined county authorities, should help ensure that local authority targets match the national ones.

Every local authority should be required to include agreed local housing targets in their up to date and adopted local plan, and to identify the land needed to meet these local targets. Partners should align their capital programmes to ensure that the required infrastructure for the new development sites identified in local plans is provided.

There is a strong case for reviewing Green Belt boundaries and in the longer term considering the role of Green Belts as part of settlement strategy policies. The latter should consider the role that New Towns can play in the longer term.

To ensure that what we build is sustainable we need to bring forward a new homes standard that includes a clear-cut 'green agenda'. This is already in consultation.

Greater coherence, consistency, and resilience in housing policy: the timing of changes

Were our proposals to be accepted, they would, over time, improve consistency and coherence because the individual threads are designed to work together. Coherence can be achieved only if the government as a whole (together with other relevant agencies) takes long-term responsibility for identifying and meeting fundamental housing objectives.

In the short term the following changes would help produce more new housing; improve the use of the existing stock; and help make housing more affordable. We believe our proposals for immediate changes are realistic: many build on existing government commitments, some reintroduce measures which have been tried and tested in the past. What our proposals do is to bring them together in a more coherent and consistent way. And, while some require additional resources, these are mainly in the form of investment.

We therefore recommend to the government that the initially:

- Complete local plan coverage showing where new homes can be built as provided for in the Levelling Up and Regeneration Act;
- Provide help to expand sub-market home ownership provision e.g. by supporting shared ownership and First Homes;
- Reform S106/CIL to ensure more effective provision of affordable homes (including social housing) as well as wider infrastructure;
- Waive SDLT initially for downsizing ‘elders;
- Tax second homes and short- term lettings to improve the use of the existing stock;
- Enact a modified Renters (Reform) Bill to ensure greater security but also a simpler approach to in-tenancy rent adjustments and more effective enforcement procedures.
- Adjust council tax to levels which enable basic services to be provided by local authorities.

Into the longer term it is necessary to build cross-department and if possible cross-party agreement about longer term objectives. It is also necessary to rebuild local authorities’ capacities to carry out their responsibilities more effectively and ensure that taxation and housing policies are aligned. The focus should be on ensuring a more effective and distributionally acceptable use of the existing stock, and on addressing the impact of housing policies on investment, productivity and net zero requirements. Housing is an important part of the overall economy - it needs to be able to play its role.

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