Beyond welfare housing? James Paul Lusk

A shorter version of this article appeared as chapter 8 in 'Foxes have holes: Christian reflections on Britain's housing need' edited by Andrew Francis and published by Ekklesia in 2016.

'Four walls and a roof'

Not long after the 2008 financial crash, I was at an event of the kind Oxford colleges arrange for what, following American fashion, they now call their 'alumni.' Third year undergraduates, in high spirits after finals, were curious about the aged creatures who happened across their path. What had I done with my Oxford PPE degree? *Housing*? We have heard of the Treasury and the Foreign Office, but not *housing*. Why work in Housing *Benefit*? I said something about the interaction of neighbourhoods, finance and governance: how my alpha-rated skills in economic organisation and political sociology had been so practically challenged on the borderlands between the two. Soon the little group waved me away with these words of dismissal: *Housing* – just four walls and a roof, isn't it?

So here's the thing, young friend. Fifty years ago, Britain had 16.5 million homes (those bits of 'four walls and a roof') and a population of 51.3 million – one home for every 3.1 people. The average house price was about three times the annual wage of a male industrial worker. So when your parents were born, your grandfather (though not your grandmother) could very likely afford the mortgage on a house if in regular work. By the time you were born, there was one home for every 2.5 people, and prices - at about four times average annual wage - still left purchase within the reach of the typical worker, especially with a second salary now taken into account. Now, as you graduate, there are nearly 28 million homes for a population of 64 million – one home for every 2.3 people – but the average price[1], at around seven times average annual salary, puts house purchase beyond the reach of most employees. Welcome to 'generation rent'.

So what's the problem? The conventional wisdom ('four walls and a roof') is this: there are too few homes for the demand, prices reflect this shortfall, so the only response is to build more homes. This leaves a question as to why, in real terms after allowing for general inflation, house prices have more than trebled in thirty years while the growth in the housing stock has more than kept up with that of population[2]. So is there really a housing 'shortage'? Is that an adequate explanation of house price movements? If not, what else is going on in our housing markets?

My answer will consider the three ways we occupy homes – as owners, as social tenants, and as private tenants – against the background of 'welfare state' housing as it developed in the second half of the last century. I will show that the 'housing crisis' is really about distribution, though there may still be a case for growing the stock. The distribution crisis arises mostly from welfare housing policies and their uneven effect. Public discussion of housing is shot through with propaganda, wilful ignorance and the subordination of evidence to political myth. Truth can free us from myth, but only if we can first acknowledge the stake which most of us (including this writer and the majority of voters) have in its construction. This may be painful but, like neglectful and selfish parents

---

[1] House prices are from the Nationwide houseprice index. As only a fraction of homes are sold in any one period, the actual average transaction cost is adjusted in any index to provide a 'typical' figure. For a fuller study of indexing, see Acadata, 'Which Houseprice index?' (July 2104)

[2] It is often said that housebuilding programmes were much larger in the past, which is true. But the large scale public sector housebuilding of the mid-20th century were part of huge 'slum clearance' programmes so the actual net stock growth was much less than the scale of building. Our housing stock relative to population has grown fairly steadily.

everywhere, we owe the younger generation an explanation of the mess we are leaving them to live with.

Please Please Me: The rise and fall of owner occupation

Let's start with those grandparents and parents – the people who grew up with the National Health Service, bought Beatles records with their pocket money, and gave birth to more of their number into the 1970s. Having been a teenager when the Beatles topped the hit parade, I think of us as the Please Please Me generation – the one that learnt to take for granted free healthcare, free education and free love. And here's another thing – mostly we got homes for free. *Free*? Yes – if you consider that growth in house prices more than covered the cost of borrowing. An average buyer in 1969 saw the cash value of their home grow by over 10% a year for the life of a 25-year mortgage, when interest rates were generally at or below this figure. Then from 1994 to 2007, house values continued the same rate of growth but now interest rates were at or below 6%. Over the 40 years up to 2007, the consumer mindset became fixed as: Borrow as much on mortgage as we can, it will more than pay for itself. And then with relaxed financial controls, a corresponding mindset entered the banks: Lend as much on mortgage as we can, our balance sheets can only get fatter. The crash of 2008 was the result, largely, of the houseprice Ponzi scheme that printed money for Generation Please Please Me.

To understand how, and why, this happened, let's look back to the creation of the post-war welfare state and in particular to the thought of T H Marshall. In 'Citizenship and social class' (1949), Marshall said that in a modern democracy, three goods are to be provided to all to a basic standard. These are health, education and housing. Citizens have a 'social right' to these, just as they have economic rights to buy and sell, and political rights to vote and organise. Health, education and housing can all be provided through the market, but giving people money to buy them does not promote equality – giving poorer people money might help the poor but it squeezes out those in the middle who cannot compete with the self-funded rich and the state-aided poor. The answer, according to Marshall, is state supply to a roughly equal standard for all. He expected that, in time, council housing would be like education and the health service – provided by the state and available to everyone on more or less equal terms.

Council housing did grow in the post war years – by the mid-1970s, one UK household in three was a tenant of the state. But the major form of tenure became owner-occupation. Sustained growth in house prices dates from 1959, when the House Purchase and Housing Act empowered government to fund building societies to increase lending for older and cheaper homes. Soon after, Schedule A income tax for owner occupiers - which taxed the 'imputed rent' flowing from land ownership - was abolished. Meanwhile tax relief on mortgage interest – which counted as a cost for Schedule A purposes – was kept. So now both public finance and subsidy promoted borrowing for home ownership. House prices grew and profits on sales by residents was exempt from tax. Soon it became customary to borrow on the expectation of rising prices.

Now, in 2015, nearly half of owner-occupiers no longer have mortgages – they are 'debt free.' Most households headed by a pensioner are in this category. Among home owners with mortgages, the average mortgage debt is £83,000, and their household income, at £43,000, is £10,000 above the national average. Most of these spend under a third of their income on servicing their debt, and could comfortably deal with a rise in interest rates.[3] So the majority of the population pays either

[3] *The impact of interest rates on the household sector* in BoE quarterly bulletin, Q4 2014 http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q405.pdf

nothing, or a comfortably affordable sum, for their housing. This majority represents older people and the more affluent.

Those wishing to enter home ownership face restrictions imposed on lenders by the Bank of England. They (mostly) cannot borrow more than 4.5 times the household income, and a 'stress test' examines their ability to cope with a rise in interest rates by three percentage points within five years[4]. With starter rates for mortgages now at around 2.5%, this means allowing for rates to more than double in five years. The stated aim of these restrictions is to limit (though not prevent) the expected rise in house prices.[5] The effect is that the cost of capital to new home owners is artificially calculated to equal the rate of return (up to 6%) generally offered to private investors in the rental market – in other words, to prevent new buyers from competing on price with private investors who can borrow cheaply and interest-only on a 75% loan to value ratio. As the housing minister told a parliamentary enquiry in September 2015: 'Government is determined to create a bigger, better private rented sector'. The main means to achieve this aim is to limit the flow of new home owners, so that the medium for allocating stock to new (mainly younger) households is private investment and rental rather than the earlier tradition of mortgage-funded home ownership.

The fall and rise of private renting

At the start of the 20th century, nearly all housing was rented from private landlords. As Britain entered the 1950s, half our homes were still privately rented. Of the rest, 30% was owner-occupied and 20% rented from councils. In twenty years owner occupation grew to become the majority tenure. Council housing peaked in the 1970s at around a third of the total. Unloved, unsubsidised and made uneconomic by rent control, private renting collapsed. So the post war vision of welfare housing for all was fulfilled - but not by the single form of state tenure that Marshall expected. Instead, owner occupation provided for those willing and able to borrow, with council housing for most of the rest. Vigorous rent control suppressed private landlordism which fell as low as 10% of the stock by the 1980s. Under Thatcher, Major and Blair, council housing gradually declined – giving way first to the Right to Buy, then to stock transfer as governments grew housing associations as the preferred provider of what became known as 'social housing'. Owner occupation peaked at 69% of the stock in 2003. By 2010 the share of housing associations in the stock was overtaking that of council housing. But the big story became the return of private renting. In the five years to 2013, as the UK housing stock grew by 648,000, the number of owner-occupiers dropped by 380,000 and the number of privately rented homes rose by 930,000. Privately rented homes now amount to about one home in five.

If these trends continue, private renting will overtake owner occupation before 2040. And government policy is 'determined' that these trends should continue.

Housing: it's an economy, stupid

To understand what is going on here, and why, we need to start with some basic reflection on how a housing economy works. Most people in Britain expect to live in a durably constructed enclosure fixed to land. These dwellings can easily last for a century or more. Many of us will have been startled by an old photograph of a familiar street – cars have replaced horses and carts, tarmac has been laid over the previous earth track, overhead lines carry power and communications, people dress differently, but the houses themselves have altered not a bit. Over years, populations change, but dwellings by and large do not, so people are forever fitting themselves into a pretty much fixed

[4] http://www.bankofengland.co.uk/financialstability/Pages/fpc/intereststress.aspx
[5] http://www.theguardian.com/business/2014/jun/26/bank-of-england-limit-large-loans-housebuyers-mortgage-lenders

estate. If we don't want the bother and expense of regularly tearing down and rebuilding masses of homes, then we needs means of allocating people to property. The predominant type of dwelling in the UK is a three bedroomed house, and one of these might once have been occupied by a single family with two or three generations under one roof, but now with little adaptation it provides for several unrelated, single income-earners. Most of us see this kind of turnover, in all directions, happening around us.

The housing 'market' is, from this viewpoint, the mechanism for allocating the benefits that flow from the physical stock to the population insofar as they are ready to pay for access during any given period. The better the market, the more efficiently the people looking for homes will fit into the available stock. This means there must be a way of drawing some people out of homes when their occupation of that property is no longer an efficient use of space. In a pure, free rental market, all this is done by price expressed as the rent charged – the rent purchases a right to occupy space for a period of time. Owners need to be able to refix the rent regularly, and tenants can only occupy the property for a fixed term. These are the conditions of the private rental market today.

If that is not acceptable, then another way of doing the business is for an authority to allocate homes based on some agreed measure of entitlement. This happens in the social sector, with the proviso that social tenancies (mostly, still[6]) include a right to occupy space for a lifetime (or beyond, with succession rights). Margaret Thatcher's famous 1980 housing reform, conferring the Right to Buy, also included other rights for council tenants – including rights to permanent secure tenancies and to pass a tenancy on to cohabitant family members after death. The overall effect, regardless of ownership, was to confer rights of permanent occupation on current residents, and disrupt the systems that reallocate homes among users as needs change.

Home owners buy a capital asset. The purchase decision reflects availability of credit to spread the cost over (typically) 20-25 years and expected resale value for something that, unlike most assets, rarely falls in value over time. Buying and selling property, unlike changing landlord, is expensive and takes time. Most home owners, as we have seen, have either paid off their debt or can comfortably afford their payments, so there is little financial pressure to sell. There are currently 800,000 UK properties advertised for sale on Rightmove, a figure unchanged over recent years, and around 100,000 sales take place a month, including maybe 10,000 new-builds as well Right to Buy purchases. So someone selling a second hand home needs around nine months to make the sale. With turnover running around 5% per year, the average home owner stays in one place for the best part of 20 years (with of course wide variations from one instance to another).

So it is not surprising to find that - measuring by the number of bedrooms - we currently occupy at least twice as much housing as we need[7]. A third of us have two or more spare bedrooms, a figure that rises to 47% among home owners. 83% of home owners have more space than they need, compared with 49% for private tenants[8] and 39% for social renters. The proportion with an occupancy rating of 'zero' (i.e. having exactly the space they need) is 15% for owner occupiers compared with 52% for social renters.

Of course 'spare' housing might be concentrated in areas of lower demand. So let's look at London, where demand is highest. Here the proportion of home owners with more rooms than they need falls from 83% to 70%, and the proportion with exactly the space they need rises to 24% among

[6] Though social housing may move towards fixed-term tenancies in accordance with Coalition legislation
[7] These figures are from the 2011 UK census accessed through NOMIS tables for England and Wales
[8] The dataset used here includes small numbers of rent-free and old 'fair rent' regulated tenancies along with private tenants

home owners, compared with 56% for social, and 52% for private, renters. Even in London, a third of home owners have two or more surplus bedrooms. Among households composed wholly of people aged over 65, those in London 46% have two or more spare bedrooms compared with 53% nationally. So the basic pattern remains. Home owners generally do not pay the market price for their housing (considered as a flow of benefits arising from the capital stock), many indeed pay nothing, and the opportunity cost of underused space is not a sufficient incentive to use stock more efficiently. Some brand this as 'hoarding.'[9] This depicts older, under-occupying home owners as being either (1) irrational accumulators of useless possessions, or (2) as miserly speculators keeping rooms empty awaiting price hikes. Neither is helpful in reaching the truth.

The truth is that, as a political community, we have decided to treat housing not so much as access to useful shelter, but as an endowment of permanent property rights, for life and beyond the grave, on the generations born from roughly 1920 to 1970 – the first fifty years of mass democracy.

In justifying the 'bedroom tax'[10], ministers pointed to under-occupation and low turnover in social rented homes. Social renters are much more efficient than owner-occupiers in using the space they occupy. The turnover in social renting is about 5% per year: about the same as for owner-occupation, compared with 40% in the private sector. The private rented sector, with short tenancies and free-market pricing, routinely reallocates housing among users, and the government finds this efficiency attractive. But if the aim of policy is to spread these benefits, then the real target must be to reduce owner-occupation and transfer stock to private rental investors – which is in fact what we are seeing. Even so, the point where most stock is allocated through a rental market will not be reached for many decades. Meanwhile new waves of the young rely on the private rental market, where stock is limited by under-occupation and low turnover elsewhere, and prices reflect this unequally distributed supply.

Whose benefit?

Private tenants at the lower end of the market[11] can claim Housing Benefit (HB) to pay all or part of their rent. HB is now the main way that the UK state spends to support rented housing. It costs £25bn per year to house about a fifth of the UK population. 36% of tenants in the British private sector receive HB, rising to 71% of those in the social rented sector. The average award is £108.82 per week for private tenants, £92.68 for housing association tenants and £82.38 for council tenants[12]. In the past much of this was paid directly to landlords, but with the coming of Universal Credit (UC), tenants are starting to receive cash monthly in arrears and pay their own rent. Lord Freud, the former banker and long-serving minister in the Department of Work and Pensions, explained the thinking behind this change[13]:

---

[9] Inter Generational Foundation *Hoarding of Housing: the intergenerational crisis in the housing market* (19 October 2011)

[10] Officially known as the 'spare room subsidy,' this restricts the amount of housing benefit paid to tenants who 'under-occupy' social housing. This currently affects about 450,000 tenants who lose an average of £15.24 per week, which they need to find by other means such as saving on other expenditure or sub-letting a room. The 'bedroom tax' was introduced by the Coalition government and brought social housing into line with the system already applying in the private rented sector.

[11] The ceiling for private sector HB is set by Local Housing Allowance representing the lower end of the rental market in each area. For details and local rates see https://www.gov.uk/government/publications/understanding-local-housing-allowances-rates-broad-rental-market-areas

[12] HB caseload statistics for Great Britain, May 2015

[13] Interview in Inside housing 25 May 2012

> I'm particularly keen to make sure we take advantage of getting rid of the poverty premium and allow people to handle decent sums of money to make proper decisions rather than scrapping around for bits and pieces of cash on almost a daily basis

At the time of writing, UC is still being phased in, and the full results will not be seen for some time. The evaluation of pilots[14] showed that UC did have benefits for some tenants in improved money management and cost awareness, and greater motivation to find work. But for landlords, the result was sharply increased arrears and higher costs in income recovery, always an expensive part of housing management.

For many on the political Left, this system of supporting rented housing appears over generous to landlords. A common call is for HB to be devolved to local authorities and spent on 'bricks and mortar' rather than revenue spending. It is not clear what this would amount to – £25bn would build, or buy, a home for maybe one claimant in forty, per year. Ed Miliband, as leader of the Labour Party, appeared to be adopting an interesting variation in 2014[15], suggesting that devolving HB would save cost by enabling local authorities to achieve discounts from landlords. Clearly this could work – but only if authorities, or their agents, could procure rented housing directly, pay the rents and so significantly reduce landlords' management costs. Such a change would have radical implications for the legal status of up to 5 million households and place a huge responsibility on devolved authorities to find homes for them. The idea did not appear in the 2015 Labour manifesto.

What big teeth you have, grandma: the rise (and fall?) of housing associations

There are about 1600 housing associations registered with the Homes and Communities Agency in England[16], providing over 2.6m homes. This compares with up to 2m private landlords[17] owning some 5.2m homes, often paying estate agents to manage tenancies, order repairs and collect rents.

So each housing association operates on a vastly larger scale than the great majority of private landlords. Even so many associations are relatively small, having been established to own estates of a few tens or hundreds of homes. Those with fewer than a thousand homes are considered so small as not to be worth actively regulating. Around 60 associations own 10,000 homes or more. How have they got so big, when there seems to be no corresponding drive to scale up among private landlords? One reason is development – most housing associations have received government grant to build or improve homes, and authorities have tended to invest in larger associations with their ability to spread risk and cost across a larger stock. Another factor is VAT on running costs. Housing services to tenants are not liable to VAT, and this means landlords cannot recover the VAT they pay on services. So landlords can save significant amounts by 'insourcing' – using their own directly employed staff rather than purchasing from VAT-registered contractors. To 'insource' such things as repairs, computer systems, accounting and gas servicing is impossible for small landlords and may be less efficient in economic terms, but VAT makes it possible to save money by 'insourcing' when operating on a large scale.

English housing associations own stock with a book value, as homes reserved for social letting, of over £120bn, of which £43bn is represented by the government grants which helped pay for the

---

[14] Direct Payment Demonstration Projects: Key findings of the programme evaluation, DWP, December 2014
[15] See for example http://www.localgov.co.uk/Labour-reveals-plans-to-devolve-welfare-and-housing-powers/36563
[16] Different regulation and registration arrangements apply in the devolved nations
[17] The figure of two million comes from a report in the Daily Telegraph on 22 October 2014

stock, and which would be clawed back should there be change in this use.[18] Housing associations charge regulated rents for long-term 'assured' tenancies. Unlike councils, they are free in principle to select their own tenants freely[19], but as part of the deal to receive grant, they accept tenants nominated by councils. Furthermore, most housing associations are charities. Letting homes is not a charitable purpose, and what makes housing associations charitable is usually the 'relief of poverty' – so tenants must, by definition, mainly be people who could not afford to pay for adequate housing in the open market.

The political Right, with some support from big housing associations, looks at this and wonders why it can't be more like the private sector – free to set its own rents and choose its own tenants. The government grant held on the balance sheets could be converted to equity, stock could be revalued, rents would rise and so would HB bills, but this additional cost to the public purse would be offset by the value of the equity which could be sold, repaid or earn dividend[20]. Many housing associations have developed housing-for-sale products, which are not within their charitable purposes but are held by non-charitable side-companies; some have also developed vehicles to trade freely in the private rented market.[21] The 'blended' housing association – part private, part social – is attractive if we think that the next step for private renting is to move away from the 'accidental' landlord and instead offer a more mature, professionally managed investment vehicle. Others think a fundamental clash of values may impede such 'blending'.[22]

Housing associations earn £11.6bn per year from rents, mostly paid out of HB. They spend £5.4bn of this on management and maintenance – about £40 per home, per week. This is big business, covering such things as repairs, rent collection, lettings and handling neighbour disputes. Large scale ownership makes sense when it comes to borrowing, major improvements and maybe governance, but anyone looking at owner-occupation and the private sector can see that everyday repairs, lettings and rent collection are easily handled on a much smaller scale. Seen from the outside, there are potential gains in cost and quality if management and ownership are split, as has happened with council housing in the past. Such a split was the basis of a strategy for future regulation of the sector by Professor Martin Cave in 2007[23]. The regulator would be able to require outsourcing of management; tenants dissatisfied with services would be able to 'trigger' competitive procurement. Cave's analysis ignored VAT but some in the regulatory world believed that savings from outsourcing could be enough to more than cover the additional costs arising from 'VAT drag'. When the chair and chief executive of the new regulator met Parliamentarians in 2008, they were bullish about the scope for considerable cost saving, and placed the 'tenant trigger' at the heart of the framework for

---

[18] HCA sector accounts 2014. Arguably the government stake is higher if we also include stock transferred from councils (43% of the total stock) where there was no grant but government debt was written off as part of the transfer valuation.

[19] Legally, councils must give 'reasonable preference' to certain need groups in their allocations policies, in accordance with s166a of the 1996 Housing Act. The most recent statutory guidance was issued in June 2012.

[20] *Freeing housing associations,* Christopher Walker, Policy Exchange, 2014

[21] For example Fizzy Living, a subsidiary of Thames Valley Housing Association, specialises in rented housing for young professionals

[22] For an interesting insight into this debate from a private sector perspective, see on the Royal Institute of Chartered Surveyors website: www.rics.org/uk/news/news-insight/comment/social-ambitions-the-risks-facing-housing-associations-moving-into-the-prs/#

[23] Every tenant matters: a review of social housing regulation. CLG publications, June 2007

raising quality through accountability to consumers[24]. But within weeks, the 'trigger' was abandoned without consultation with regulatory staff, who were informed of the new policy by their Board.

Since the 1980s, Government has looked to housing associations to provide its new social housing, through a mix of grant and of private finance repaid out of rents – normally met from HB. The trick is to set rents high enough to reduce the call on grant, but not so high that eligible tenants are inevitably 'trapped' on HB. As can be seen from the balance sheet figures above, one housing association home has a book value of around £46,000 – you can calculate your own version of this number by taking the rental income (say £6000 a year), deducting management and maintenance (at £2000 per year) and finding out how much debt the residue will support (£46000 seems reasonable). This means finding an extra £100,000 or so before a housing association can build a new family home. Before the budget cuts of 2010, the government paid a grant of about 50% of the cost; under the Coalition this fell to 20% or less. The difference comes from a variety of sources. One is from planning: as a condition of permitting new housing, authorities require a proportion of 'social' or 'affordable' homes, so developers wanting to build homes for sale use some of the profits on other homes to subsidise the price of those earmarked for a housing association[25]. Another, under Coalition reforms, has been from rents: social landlords can now charge a higher 'affordable' rent[26] not just for the new home, but also from other homes it lets as they become vacant through turnover. Another is the profit that housing associations make on their management and maintenance operations. Following the Cave review, regulation expects landlords to work with tenants to outsource these operations, and share the proceeds, but in practice this rarely happens as it would subvert the wider aim of retaining profit to reinvest. The profits from various sources – from raising rents (mainly HB) and from the monopoly enjoyed on management and maintenance – can be packaged across a large association, or better still a group of associations, in order to build balance sheets that attract private investors. In recent years this money has been raised especially by selling bonds on the international markets. Along with VAT, this is a major driver of the consolidation of housing association stock into large groups. Often this has meant the loss of hard-won tenant involvement and local identity as smaller associations are merged and group structures are 'collapsed' under the control of centralised boards.

The affordable homes programme started under the Coalition government has, in four years, built 170,000 homes at a cost of nearly £20bn, of which £15bn has been raised in the money markets by large social housing groups. Raising such money to provide good homes for people with low incomes is not an achievement to be sniffed at. It requires highly skilled financial professionals answering to boards that speak their language, and complex business plans. But in July 2015 the Chancellor of the Exchequer announced a cut in rents of 1% p.a. for three years, in order, he said, to reduce HB. In so doing, he put every housing association business plan through a shredder. It was a crude reminder of how the Treasury sees the social housing sector and the sophisticated development programme negotiated with the Coalition government: it is one conduit through which the government procures welfare housing out of benefits paid by the Department of Work and Pensions (DWP), and it's a tap the government can turn up or down as it chooses. As a result of increased political risk, housing

[24] Communities and Local Government select committee hearing 21 October 2008: http://www.publications.parliament.uk/pa/cm200708/cmselect/cmcomloc/1123/08102102.htm

[25] On 8th October 2015 The Prime Minister announced planned legal changes so 'affordable' homes would in future be to buy rather the rent. As many of the remaining homes will be bought for investment, the effect will be that the profits on private renting subsidise low-cost ownership,

[26] The higher of either 80% of market rent or the LHA figure which caps HB

associations will pay more for capital. The social housing regulator had a helpful suggestion about how to prepare for that. Associations should 'consider merger.'[27]

The rent cut came as a surprise, but the Treasury has for years been making known its unhappiness at associations' high management costs - which from the government perspective appear as an expensive drain on the DWP budget. The official story was that these costs could easily be reduced by more than the 1% required, and this would create more headroom for borrowing to build homes. But a wider political agenda was at work. The Times on 9th September 2015 reported

> George Osborne has attacked housing associations for failing to deliver the homes the country needs.
>
> The 1,500 state-backed providers of affordable properties are inefficient and their performance is 'not particularly impressive', the chancellor told a House of Lords economic affairs committee as he defended the government's policy to extend right-to-buy to them.
>
> 'Is the housing association sector doing what it was designed to do, a vehicle for building homes?' he asked. 'The last data I saw, four out of five associations built no houses at all.'

His analysis was borrowed from the Policy Exchange report, referred to earlier, advocating 'free housing associations'. It classes associations as 'inactive' if they do not build homes. So the business that goes with owning existing estate - managing and maintaining homes, finding and welcoming new tenants, settling neighbour disputes and building the relationships that sustain thriving neighbourhoods – is not 'activity.' We are back to 'four walls and a roof' – *housing* means sticking things together to create more enclosures, not the economic relations that mediate the use of what is already there. This thinking understands housing as 'stock' but not 'flow.'

Why the political assault on housing associations? It may be simply to soften resistance to the Right to Buy promised in the winning 2015 Conservative manifesto. Or it may be that the Policy Exchange agenda for 'free housing associations' is a serious option. My guess is both. Whether or not housing associations and councils back off from stalling the expensive right to buy policy, the next Conservative manifesto will include privatising at least some associations. This could be balanced, in the politics of 'triangulation,' with freeing councils to borrow more from their housing revenue accounts for new build.[28]

Housing myths

Disputing the procurement skills of housing associations, the Spectator[29] magazine claims that private builders deliver a 3-bedroom house for an average of £90,000 'land included'. But this can't be right when land alone, for the house depicted, would cost an average of £50,000 outside London and three times that inside it. Lamenting the declining standards of private housing, the Guardian

[27] http://www.socialhousing.co.uk/rps-should-consider-merger-if-necessary-and-be-ready-for-higher-cost-of-debt-says-regulator/7011835.article 18 September 2015

[28] In October and November 2015, the government announced a series of policy changes. 'Affordable' homes will in future be to buy rather to rent. New social housing tenancies are to be time-limited to up to 5 years. A higher rate of stamp duty will apply to properties bought for private renting and private investors' relief on buy to let mortgages will be limited to the basic rate of tax. This shows a government moving quickly with presentational effort to address the political risks of the shift towards private renting, but the practical effect is unlikely to be more than marginal. Social housing now has little part in the policy mix.

[29] 'Why housing associations are the true villains of the property crisis' 25th July 2015

newspaper[30] claims that average modern houses fall below the Parker Morris size standard of the 1970s. But this can't be right when that average house today is over 50% larger than the Parker Morris level for the average modern household. In short, whether from Right or Left, the media, it seems, can only deal with housing as a grindstone on which to sharpen its particular political axe. Actually existing costs, actually existing floor areas, the whole housing landscape as it actually exists, are all these are, seemingly, not of interest. A grip on facts that would be totally unacceptable on the sports pages is routinely at work when the topic becomes housing.

Bearing that in mind, we face the big beast among housing's political myths: ever-repeated, usually prefaced with the fateful words 'everybody knows that…,' the claim that 'to meet future need' or 'demand', we have to build 200,000, or 250,000, homes a year. How do we know this? To ask this question is to cross a red line in public debate: it is a number passionately accepted by the media and propagated with the fervour usually associated with a public religion. But the truth is that we don't know. We may 'need' fewer; or we may 'need' more. Let me explain.

Since the planning system came into being, the methodology has been to forecast the number of households to be formed, predict the number of new homes needed, then drive the allocation of land through the planning system. For a long time new household formation overshot predictions as the number of single person households grew. But something else started happening around the turn of the new century. Let us turn to the leading authority on all this, Professor Alan Holmans. His analysis of the 2011 census, published in 2013[31], reports an 'abrupt' change: fewer households than forecast despite a higher population, compared with projections made as recently as 2008. This is partly due to more multi-generation households, maybe due to economic pressures keeping more young people with parents. But as Professor Holmans says, the 'most striking' trend was falling growth of single person households. In an 'abrupt break with longer term trends' there are almost a million fewer of these. Take a second look at that figure: at least half a million homes we were told were 'needed' turn out not to be. And why? There are many more couple households among those aged 35+, most markedly among those aged 45-64 (333,000 more couples than expected, and thus fewer single households). There are more couples aged over 65; more over 75; even a few more over 85. It's that pesky Please Please Me generation again, upsetting household projections by unexpectedly ceasing to live alone.

Professor Holmans' projection assumes some return to the historic trend towards lone living, combined with the two factors that drive population growth – we are going to live longer, and we will continue to attract immigrants. But what that means for housing demand is, in truth, guesswork. Will immigrants stay and grow families? Probably, but they might tend to form larger households. How will older people want to live? We don't know, and previous efforts to provide for a supposedly preferred lifestyle came unstuck when we built too many small 'sheltered' flats. Demographers' terms such as 'household-forming age' become less meaningful as people enjoy their cultural and economic liberty to start later and then build a succession of households over a lifetime. Our level of housing provision, at one home per 2.3 of population, is not low by international standards. If population rises as expected, and we want to maintain the current household size, then we will need to build 4m homes in 20 years. At current housebuilding rates, around 120,000 per year, the average size will rise to 2.4. So do we really need more housing than is enjoyed in the USA (2.6) or Australia and New Zealand (2.7)? But if we look at Germany, with its thriving rental housing market, the ratio is 2.1. To emulate that, we need housebuilding to exceed 300,000 per year.

---

[30] 'If we don't want to live in shoeboxes we need to bring back housing standards' 7th January 2014

[31] 'New estimates of housing demand and need in England, 2011 to 2031' Alan Holmans, TCPA, 2013

Meanwhile the housing minister promises 1m new homes by 2020, and the drive to build new homes is combined with the political priority to protect the green belt. The result is mounting pressure on existing urban sites, most acutely, but not only, in London. Developers and large housing associations partner in programmes of 'densification.'[32] Existing social stock is short-lifed, to be replaced with blocks at much higher densities funded by housing for sale with cross-subsidy from buyers to social landlords. Campaigns challenge the alleged unfitness of existing stock and demand security for temporary occupants of short-lifed property. Housing associations, the 'goodies' in previous iterations of anti-clearance struggles, now find themselves fronting apparently ruthless commercial consortia in confrontation with resident groups and Left-wing activists.[33] When the time comes to explain the failure to achieve 1m homes, housing associations may be sufficiently unpopular to be a convenient scapegoat.

What is to be done?

The housing crisis is first and foremost one of distribution. It arises from post-war welfare housing policies which determined that 'social rights' would endow generations with property rights extending through life and beyond. Now, in a sample set of ten households, three are home owners paying nothing; another three are owners paying relatively little compared with income and property value; another three have their housing costs met partly or wholly by the state through benefit and rent regulation; and one pays the full market rent. That last one is likely to be a young worker in a middle income bracket. Those with free or cheap housing consume more than they need. In the long transition to post-welfare housing, supply pressure is displaced especially onto market rent payers. Their number will grow.

Devising policy to deal with this is not especially difficult. We could, for example, charge for under-occupation by restoring the old Schedule A and counting imputed rent on land owned as taxable income. An occupancy allowance for each resident would offset the charge. Taxing imputed rent could also apply to land with planning permission.

But selling policy is a different matter, when the majority of voters have a vested interest in the current system.

We need, I think, an informed debate on two key questions. The first is: what kind of tenure do young people want? The pressure group Generation Rent (GR) suggests that most want to become owner-occupiers, and its prescriptions for controlling landlords seem designed to force that outcome. But that would need a return to relaxed lending conditions and, probably, if our history is any guide, prolonged house price growth: is that what we want? If not, what are the alternatives? I think most people would say that longer term tenancies would enable people to plan. The private rental market, as it matures, may move in this direction. But another option is for medium term leases (say from five to twenty years). These could be sold by the kind of 'secondary housing market' vehicle proposed by GR[34]. It could own freehold, sell leases and revalue its assets periodically: leaseholders (individuals, co-ops or landlords) could receive a premium based on revaluation.

The second issue is the scale of new build we want to accommodate. There is no certainty about what we 'need' to meet future 'demand.' Pressure to 'densify' cities threatens losing green amenity from where people need it, close to home. We could consider flexible 'modular' garden city

---

[32] 'Home Truths' London First March 2014
[33] http://www.oceanmediagroup.co.uk/features/housingprotests/
[34] In its 2015 'Queens speech': http://www.generationrent.org/demand_a_queens_speech_on_housing

extensions, along the lines suggested in the winning entry to the 2014 Wolfson economics prize[35], with infrastructure in place to support amenities and add housing when and if the demand is there. But as with tenure, the key to progress is an informed debate with a level of public literacy about density, cost and the real benefits of falling household size, rather than the current atmosphere of frenzy and bullying about imagined necessities.

Before any sensible discussion of our housing future can begin, the task is to speak through the noise of myth and propaganda and build an audience ready to discuss an awkward truth: that our welfare housing model has for long been unsustainable, and our young people should not be left alone to bear the cost of its failure.

James Paul Lusk

Whitstable, Kent

23/09/15 updated December 2015

[35] http://www.policyexchange.org.uk/images/WolfsonPrize2014/20140827%20rudlin%20stage%202.pdf