



RESPONSE BY IRIS CONSULTING TO THE BARKER REVIEW CONSULTATION PAPER OF 9 JUNE 2003

PURPOSE

This document sets out the views of IRIS Consulting (UK) Ltd on the issues and questions posed in the consultation paper accompanying Kate Barker's letter dated 9 June 2003. This paper does not attempt to address all the issues and questions raised in the consultation paper but focuses on the following key issues:

- The nature and extent of the housing "shortage" in the UK
- The provision of "affordable" housing and housing for rent – in particular private rented accommodation.

RECENT HISTORY AND CONTEXT

In the UK as a whole there are more houses than households. So while nationally there is no housing shortage, there is a big mismatch between the location of available housing and the areas where people want/need to live in order to obtain better paid jobs and career advancement. In other words there is spare housing capacity in parts of the north of England, Scotland and Wales and excess demand in some other areas – especially in and around London and the south-east.

This contrast in housing markets reflects the underlying patterns of economic activity and accompanying population pressures. It has been the mistake of policy-makers in recent years to regard housing as an end in itself or as an extension of environmental or "sustainable communities" policies. All housing serves an economic purpose – whether it be the crofter's cottage in the highlands of Scotland or the Park Lane penthouse flat of the chairman of an international bank. People need to be housed reasonably close to their places of work. The same process saw the shift of the UK population from the land into towns and cities in the 18th and 19th centuries that was brought about by the first industrial revolution.

These same basic economic forces are at work in the global economy in which the UK finds itself in the 21st century. The "open" nature of the UK economy, the role of London as an international centre for media, communications and finance and the use of the English language as the conduit between the USA and the rest of the world have all served to boost the importance of London and its commutable environs as a magnet for people from all countries. London and the south-east of England have become part of the global economy.

The last thorough review of UK housing policy was that carried out as part of the background to the Housing Green paper issued by the then Labour Government in 1977. It demonstrated (in its technical volumes) that housing demand was a function of UK economic activity and accompanying population pressures. The definition of what was “affordable” housing was put at 25% of disposable household income. Where market rents and interest rates forced households to pay more than 25% of their income on meeting their housing costs there tended to be:

1. overcrowding of accommodation as households began to share their space with others in order to spread the costs
2. sub-division of formerly single properties into multiply occupied units.

Before the advent of council housing building programmes (in the 1920s and 1930s) the bulk of the working population was housed in private rented accommodation. The costs and quality of the rented accommodation varied widely – but tended to be poor quality where rents were lowest.

The post-war “slum” clearance programmes of the 1950s and 1960s cleared away much of the former private rented sector that housed the poorest households and rehoused them in large, monolithic council estates. Those council estates have now become part of the problem: their bad design, lack of personal space, poor management and lack of maintenance has made them a synonym for the problems of our urban environment. Building more of the same (even through the medium of social registered landlords) is not the answer to the perceived housing shortage.

THE NATURE AND EXTENT OF THE HOUSING SHORTAGE

It has been variously estimated that London contains:

- 250,000 French people who, typically, are working in the UK (London environs) for periods of between 2-10 years
- 150,000 Australians who are “visiting” London for periods typically of up to 3 years
- up to 70,000 New Zealanders and South Africans who are visiting UK but tend to concentrate in and around London and obtain “temporary” work as dentists, veterinary surgeons and bar staff
- a difficult to quantify but substantial number of people (some quasi-official estimates put them at 200,000-250,000) from eastern European countries who have entered the labour market in a wide range of occupations from construction to medical science



- o an influx of refugees and asylum seekers currently running at 70,000-80,000 per year who tend to gravitate to London on release from their settlement centres.

A large proportion of these groups is housed in the private rented sector. So while the basic economic model of housing demand and supply, as set out in the 1977 Green Paper, still holds the impact of the post-industrial revolution means that seeking to treat the housing market of London and the south-east on the basis of purely domestic UK policies and market mechanisms is fundamentally misconceived. It needs to be seen and treated as part of the global economy.

THE PROVISION OF “AFFORDABLE” HOUSING

Once the global role of the London and south-east economy is recognised, it is clear that simply building more low-cost units of accommodation will attract more economic migrants. UK economic growth will be constrained unless housing for key workers can be provided in places close to their work. Accordingly a new paradigm of housing policy responses is required. The old policy choices based on “bricks and mortar” subsidies to help boost supply or policies based on boosting the income of the poorest households to help them pay for a decent standard of housing will no longer suit the global and dynamic pressures facing the south of England.

Indeed the traditional policy responses of paying housing benefit to the poorest households and providing subsidised finance to public or not-for-profit registered landlords have compounded the problems. These policies have served to concentrate the poorest households in the worst housing. They have created a “supplier” culture where housing units are designed down to a predetermined unit cost and where day-to-day management and maintenance has been neglected. The policies have resulted in social housing being stigmatised and being regarded by consumers as the housing choice of last resort - while at the same time creating a huge drain on Government revenues.

The Government’s financial support in paying the housing benefit bill has led successive administrations to introduce ever-tighter limits and controls over the amount of rent accepted as eligible. The pressures on Government to take steps to limit the size of its housing welfare payments are obvious, but the result has been to depress the level of payments made to landlords below what represents an economic rate of return (that is a return sufficient to cover replacement, debt servicing and to meet the costs of good standards of maintenance, modernisation and site management).

Also the low level of the subsidised rents charged to tenants by local authorities and many RSLs has made it extremely difficult for any private sector landlord to compete. In practice many private landlords have withdrawn from the market



faced with such publicly subsidised competition and indirect restrictions (through HB ceilings) on rent levels. The recent expansion in the buy-to-let mortgage market (which is reported to represent 3½% of the UK housing market) has been motivated by the expectation of capital gains rather than through any expected growth in rental income. The inefficiencies in the UK housing market are created not so much by supply-side difficulties, but by long-standing and heavy demand-side restrictions. It is these restrictions which largely explain the lack of any revival of the private rented sector.

NEED TO REVIVE THE PRIVATE RENTED SECTOR

A dynamic 21st century economy needs a vibrant, high quality private rented sector to meet the unexpected and unpredictable upsurges in demand as new products are brought to market and employment patterns change at an ever increasing rate. The UK's lack of a sizeable good quality private rented sector contrasts with our economic counterparts in USA, Canada and Germany. The lack of sufficient private rented housing will, increasingly, slow down our rate of economic growth in future.

So long as the existing subsidies are in place for tenants at the bottom end of the market and the restrictions remain on the rent levels eligible for HB support, any revival of the UK private rented sector will require one (or a combination) of the following:

- tax breaks on investment in projects that provide rented housing accommodation
- subsidised finance (either in the form of grants or low interest loans) to organisations that build and manage new rented housing
- new development control planning policies that favour the granting of planning permission where a specified proportion of the proposed development will consist of private rented accommodation (there are already precedents for such policies that favour social rented housing).

A practical measure to give effect to the proposals outlined above would be to enable private companies to obtain funding towards a proportion of the cost of providing new rented housing. Such a grant regime would be likely to attract new landlords into the market and encourage existing ones to expand. It could overcome many of the objections raised to previous half-hearted measures – such as the BES and HIT schemes.

In summary the UK housing market is already subject to substantial distortions and government interventions. Any new policy initiatives should seek to move in the direction of a “lighter touch” system of subsidies and policy frameworks and not go down the path of micro-management.