

1 Introduction

Shelter very much welcomes this Review of Housing Supply.

Shelter mission is to offer advice and support to people who are homeless or in housing need. Two issues lie at the root of the problems that our clients face:

- the absence of support to households who are vulnerable in some way and who risk losing their home as a result;
- the shortage of housing, and in particular of affordable housing. In many areas of the country, this shortage has been growing in recent years.

The Barker Review's concern with housing shortages is therefore core to Shelter's concerns. It is vital that the deliberations and recommendations of the Review should focus on questions of fairness, and the effect of decent housing on the life-chances of individuals, as well as questions of efficiency and the smooth functioning of the economy. It is also important that it provides a fresh departure in the search for solutions to problems of housing supply and in particular the chronic shortage of affordable housing.

2 Shelter's experience and expertise

Shelter is the leading charity dealing with issues of housing need and homelessness. Our work includes:

- providing housing aid and advice through a network of 30 directly managed housing aid centres and another 15 independent agencies;
- a national telephone helpline (Shelterline) and a web resource (Shelternet);
- running innovative projects to provide support to those in housing need. These projects address the needs of street homeless people, young people, households at risk of losing their home because of alleged anti-social behaviour, and households who need support to maintain their tenancy; and
- drawing on this first-hand experience, campaigning on behalf of homeless and badly housed people.

Within our campaigning work, we have developed expertise in the assessment of levels of unmet housing need, and the consequences of this unmet need for individuals, households and communities. In particular, we have produced:

- the *Shelter Housing Investment Project* (SHIP) which sets out both the backlog of housing need, and the consequences of the growth in

the number of households for an increase in need for subsidised housing;

- a submission to the 2002 Spending Review that brought the SHIP project up to date;
- proposals to improve the operation of planning and affordable housing policies that seek a proportion of affordable housing on most new housing developments;
- *Private renting: a new settlement*, a report on modernising the private rented sector and developing its role as an intermediate housing market (this report was produced jointly with the Joseph Rowntree Foundation); and
- extensive work on the particular housing needs of London, including participation in drawing up the draft London Plan¹.

It is against this background of first-hand experience of the needs of people who are homeless and in housing need, and of researching and developing policy to respond to this need, that we are making our submission to Kate Barker's review.

3 Shelter's vision for housing supply

An effective framework for housing supply will:

- respond to changing demand. It must take account of overall growth in household numbers, as well as the rise in average incomes, both of which will increase demand for housing. A failure to respond to this rising demand will result in higher house prices – as the terms of reference of the Barker Review acknowledge;
- respond to a variety of needs. Whilst London and the South of England enjoy higher average incomes than England as a whole, this comes with an unequal income distribution and – in particular – a large number of households on low incomes or who are economically inactive. In a constrained housing market, and without sufficient government intervention, poorer and more vulnerable households will suffer poor housing conditions, and will have to spend long periods waiting for a decent home. There is substantial evidence that this is exactly what is happening in the South of England (see sections 1.1 to 1.4 below). It is vital that the Review's work and its recommendations for reforming housing supply seek directly to redress the housing poverty of large numbers of households;

¹ Copies of the first four documents referred to were provided to Kate Barker when we met with her on July 24th 2003

- use a variety of mechanisms to achieve its objectives of economic fairness and efficiency. In particular, the framework will:
 - provide the government investment in social housing to meet the needs of low income households;
 - use the land-use planning system to ensure that affordable housing is provided within new developments;
 - draw in the private rented sector to play a greater role in terms of overall supply, and within this to provide housing that is affordable to low income groups.

... our proposals in these respects are set out in section 6 below.

Efficiency and fairness

Of course an adequate supply of housing is not simply an end in itself: it is important because of its impact on economic efficiency and fairness.

The relationship between economic efficiency and housing supply is not just about securing employees to support key public services and private enterprise. Poor housing conditions contribute to poor health, which in turn leads to a loss of productivity and additional demands on health and social services. Homelessness leads to children missing school. Poor housing conditions (which can mean poor physical conditions or over-crowding in the home) leads to children being unable to study at home. Housing that is unaffordable in relation to income creates a dependence on welfare benefits and poverty traps that have a knock-on impact on labour market behaviour.

Similar issues apply to considerations of fairness. Many households do not have access to housing that is of decent physical quality and is large enough for their requirements. Young adults are unable to set up home together and start a family because they cannot afford a home of their own. Hostel provision for single homeless people is in short supply because there is insufficient self-contained accommodation for existing hostel residents to move on into. This is particularly the case in London.

3 Shelter's response to the issues raised by the Barker Review

Our response focuses in particular on Issue 4 of the Review – affordable housing.

We start by setting out the evidence about the extent of the need for affordable housing, and then suggest ways in which this need could be

tackled. We then make some proposals concerning the interaction of housing development and land use planning processes.

3.1 The extent of the need for affordable housing

Independent research commissioned by Shelter demonstrates that 90,000 additional affordable homes are required each year in order to meet the housing needs of the growing number of households, and to overcome some of the backlog of housing need that exists today. The next four sub-sections explain how we arrive at this figure.

Backlog of housing need

Research carried out for Shelter by the Centre for Housing and Planning Research (CHPR) at Cambridge University estimates that there are 990,000 households who are inadequately housed².

This figure includes:

- households accommodated on a temporary basis by local authorities because they have been homeless but there is no permanent housing available to them;
- couples and single parents with children who live with another household;
- households without children who share involuntarily;
- single homeless people without a settled home of their own;
- private sector tenants and owner-occupiers who require social rented home because their home is inadequate for their needs and they cannot afford the alternative;
- social sector tenants who are overcrowded or in other unsatisfactory accommodation.

We estimate that the needs of approximately one third of households could be met from within the existing stock if properties and households were better matched one to the other. This leaves some 650,000 for whom there is insufficient provision.

Clearly it is unrealistic to set out to meet the whole of this need. Instead, Shelter proposes a policy objective of reducing this backlog of unmet housing need by 50% over a period of 20 years: i.e. at the rate of 16,000 per year.

Newly emerging need

Demographic projections of housing requirements are produced on a regular basis, using well-tested models based on Census and other

² A Holmans, N Morrison & C M E Whitehead (1998) *How many homes will we need?* London: Shelter. A Holmans, M Kleinman, C Royce Porter, C M E Whitehead (2000) *Technical Report*, London: Shelter

information about the number of people in the population, and trends in household formation and dissolution.

The most recent detailed projection was carried out for the Town and Country Planning Association in 2001³. On the basis of this report, and making use of the some more recent data, research for Shelter in 2002 projected a need to provide 3.8 million additional homes in the 20-year period from 1996, equivalent to 191,000 per year.

The majority of these will be provided by the market. However, by looking at past and present household behaviour and household incomes, we estimate that each year, some 70,000 of these new homes will need some form of subsidy in order to be affordable to the households that need them.

Shrinkage in the private rented sector

The CHPR's research for Shelter found evidence of a reduction in the number of low income and inactive households housed by the private rented sector. The reason for this is not precisely understood but a major factor is clearly the poor administration of housing benefit system that low income tenants rely on to pay their rent. Whilst it is difficult to arrive at a precise estimate of the size of this shrinkage, a loss of 10,000 homes a year is a conservative estimate.

Total additional need for affordable housing

We therefore estimate a total affordable housing requirement as follows:

- 16,000 per year to reduce the backlog of need;
- 70,000 per year to meet the affordable housing component of overall housing growth;
- 10,000 per year to compensate for the shrinkage of the private rented sector's role in meeting housing need.

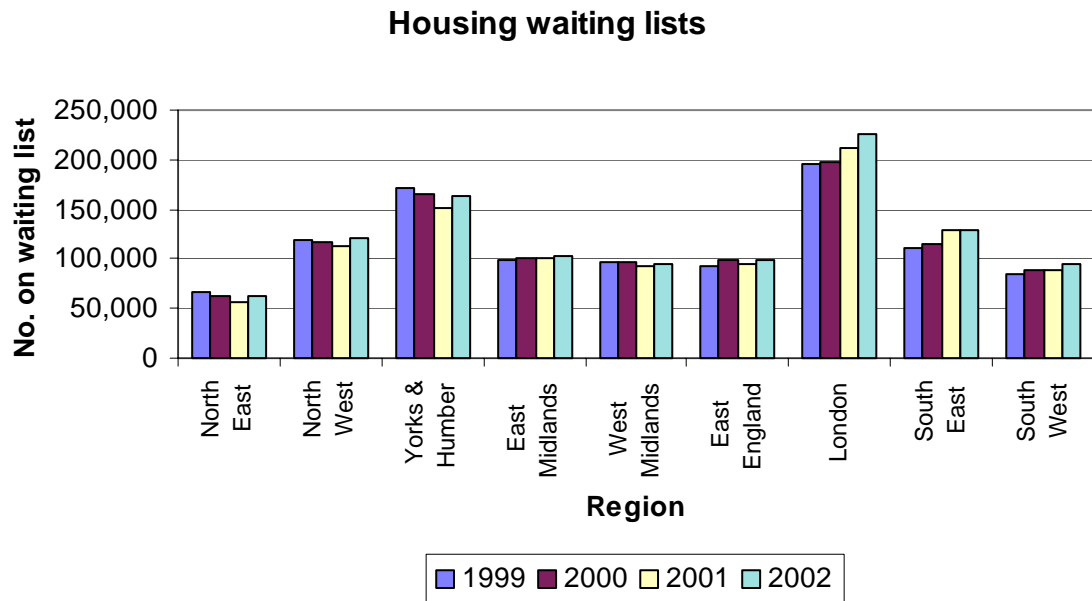
Because each of these figures is the central point in a range, we have again been conservative in putting forward an overall figure of an additional 90,000 affordable homes needed each year.

3.2 Other indicators of housing need

In addition to the more comprehensive analyses of the need for affordable housing, there are a number of 'stand alone' indicators of housing need that illustrate the range of problems and – in some instances – their trend.

³ Alan Holmans (2001) *Housing Demand and Need in England 1996-2016* London: TCPA

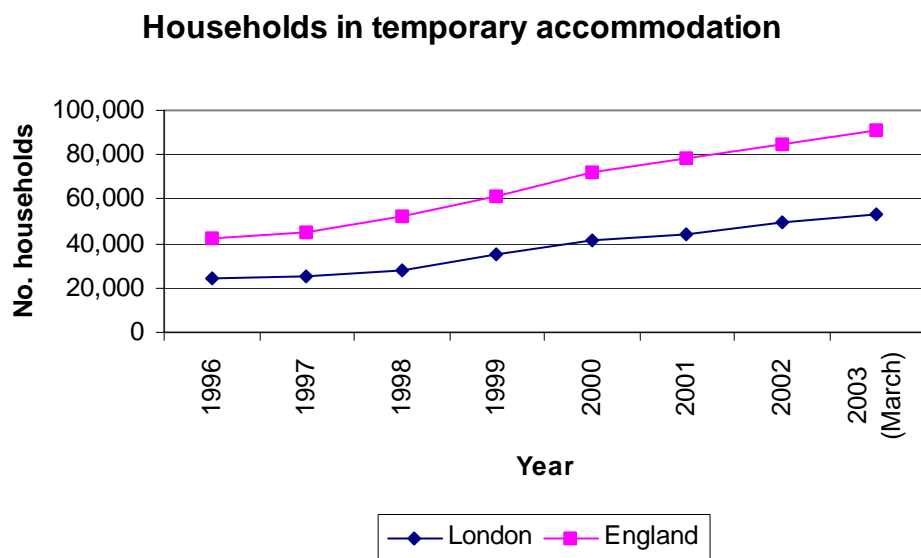
Local authority housing waiting lists



The graph above illustrates recent trends in the number of people registered on local authority housing waiting lists. There is a clear difference between London, the South East and the South West and the rest of the country. Whilst waiting lists in England as a whole have risen 5% in the four years from 1999 to 2003, in London and in the South East they have risen 16%, in the South West they have risen 12%, and the East of England they have risen 8%.

Households in temporary accommodation

The homelessness legislation requires local authorities to provide accommodation to households who are homeless and in priority need. Local authorities will normally provide this accommodation in their own stock or by referring the household to a registered social landlord.



However where there is a shortage of suitable social housing, the local authority has to arrange for temporary accommodation to be provided. As well as being unsatisfactory for the household concerned (the accommodation sometimes consists of a room in a bed and breakfast hotel, miles from the households original home), this is an expensive arrangement for the local authority. The number of households in temporary accommodation is therefore an indication of the overall shortage of permanent, affordable social housing.

The graph above indicates the trend in the use of temporary accommodation in the period 1997 to early 2003. The 2003 figures of 91,000 (England) and 53,300 (London) are all-time records for the level of homeless households in temporary accommodation.

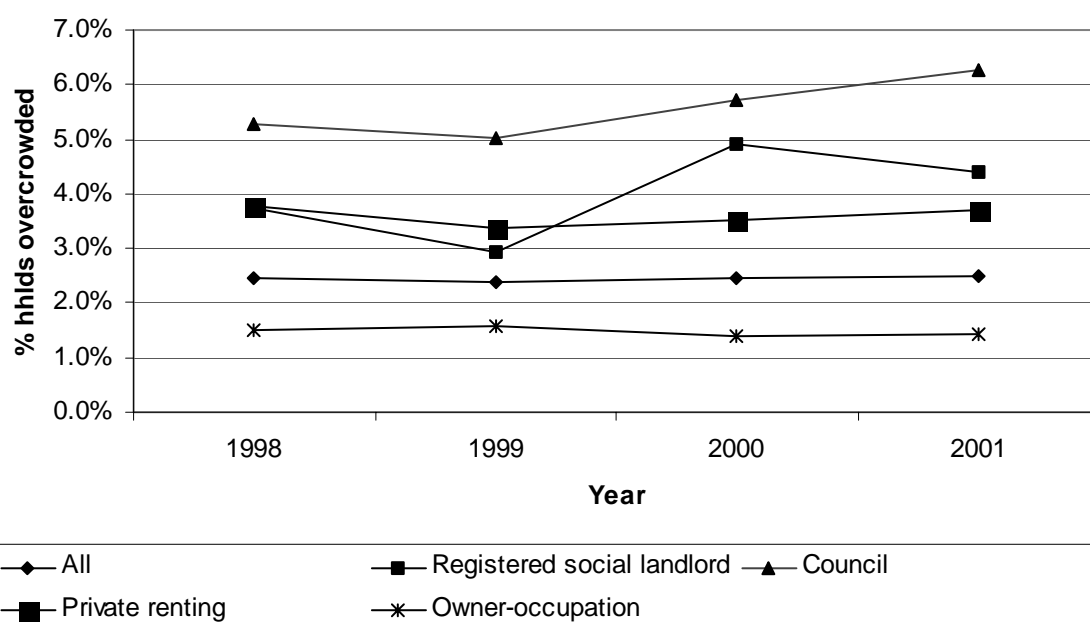
Overcrowding

The *Survey of English Housing* is an annual survey of conditions in the housing market, and includes information about the number of households who have fewer than the required number of bedrooms for their size and characteristics. While small sample sizes produces some fluctuations between years, the overall trend shows an increase in the level of over-crowding in all tenures apart from owner-occupation.

Within these percentages, there are 184,000 overcrowded council tenants and 56,000 registered social landlord tenants living in overcrowded conditions.

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Overcrowding by tenure 1998 - 2001



4 What kind of affordable housing?

The figure of 90,000 affordable homes required each year (see above) includes both housing for affordable rent (i.e. at levels typical of local authority or registered social landlord housing) and 'intermediate' housing for households whose incomes allow them to pay more than an affordable rent but less than the cost of owner-occupation or market rents.

There is no definitive research that answers the question about the relative size of these two types of housing need. However the following points are relevant in this context:

- the requirement for affordable housing for rent, as demonstrated by homeless households in temporary accommodation & social sector tenants in over-crowded conditions, demonstrably combines housing and financial need. There is no comparable data that looks specifically at the housing needs rather than the housing aspirations of key workers;
- as the overall balance between housing demand and supply improves, households within the 'intermediate' market will increasingly be able to meet their own housing requirements in the open market. By contrast households on the lowest incomes will continue to need affordable homes for rent;
- in London, many households who might be thought to be within the 'intermediate' housing market in fact require housing at an affordable rent. This includes, for example, households that are living on the income of a bus driver, or a nurse / police officer at the start of their career⁴;
- policies contained in the draft Greater London Plan envisage a split of 33% 'intermediate' and 66% 'affordable rented' housing. These reflect the findings of the independent Mayor's Housing Commission report, issued in 2001.

5 Constraints on the supply of affordable housing

The previous two sections demonstrate that the shortage of affordable housing is a substantial component of the overall shortfall in housing supply, and that a large proportion of this shortage represents a shortfall in the supply of housing for affordable rent.

This section and the next one address the questions raised by Issue 4 of the scoping paper dated 9th June 2003: why it is that more affordable housing has not been provided, and what might be done to expand this supply.

⁴ See recent work by Keep London Working at the Peabody Trust, London

5.1 Current housing subsidy programmes

Affordable housing can be provided by either subsidising its supply (i.e. giving grants to builders and landlords) or by boosting the incomes of poorer households (i.e. through Housing Benefit).

Supply side subsidies

Shelter estimates that a total of 45,900 additional affordable homes will be supplied in 2003/04. This is made up as follows:

Central government funded

- Housing Corporation Approved Development Programme 25,300
- Starter Homes Initiative 3,200
- Safer Communities Supported Housing Fund 1,000

Local authority funded 8,000

No public subsidy

- Provided by registered social landlords without subsidy 4,000
- Provided by developers through planning gain agreements 4,000

TOTAL 45,900

In other words, the total funding from all sources in 2003/04 will fund an affordable housing programme that falls some 44,000 units short of the projected requirement of 90,000 households.

We do not have forecasts of outputs for 2004/05 onwards: these depend on decisions being made by newly-formed Regional Housing Boards. Announcements in this respect are due during July and August 2003. However it is already clear (from looking at the national funding totals) that these programmes will struggle to exceed 1/2 to 2/3 of identified needs, and this will include an element of low cost home ownership which will not meet the needs of the lowest income groups.

Once a complete set of these announcements have been made we will submit a further analysis to the Barker Review.

Demand side subsidies

In section 3.1 above, we explain that the number of housing benefit claimants in the private rented sector is falling, at a rate that is greater than can be explained by changes in the labour market. In other words, the private rented sector is contributing to rather than taking a share of the additional affordable housing needs identified in the previous section.

Some of the reasons for this are outside the terms of reference of the Barker review (for example, the level of rent that housing benefit will pay for, and administrative problems leading to late payments and exposing landlords to clawback of over-paid benefit). However there are measures within the terms of reference of the Barker review that could be taken to encourage the private rented sector to meet more of the need for affordable housing. We return to these in the next section.

5.2 Additional subsidy requirements to meet identified affordable housing needs

The previous sub-section identified affordable housing supply of 45,900 units as against a need of 90,000 units each year. At the start of 2002, Shelter estimated that, if this shortfall of 44,000 units were to be made up entirely through central or local government resources, the public subsidy cost would be an additional £1.7 bn. each year.

However there are other ways of meeting this need – other than through direct public subsidy. These are explored in greater detail in the next section.

6 Opportunities to expand the supply of affordable housing

Options for achieving an expansion of affordable housing

Especially in areas of high overall demand for housing, providing additional homes for which the rent/mortgage costs are affordable to lower-income and economically inactive households, will reduce the income generated from a housing development, and hence the profit to be derived from it. It is for this reason that the development industry does not of itself offer a sufficient number of affordable homes.

In addition to an expanded subsidised housing programme, there are three ways in which government can intervene to secure the provision of more affordable housing:

- by regulating the market to force developers to include a mix of housing types and costs in what they build;
- by encouraging the private rented sector to develop new forms of supply including lower cost housing; or
- by increasing the overall supply of housing with the aim of bringing prices down throughout the market.

6.1 Regulation

Regulation of housing production to ensure that it provides affordable housing as well as market-priced housing is achieved through the land-use planning framework. Planning Policy Guidance 3 (PPG3) and ODPM Circular 06/98 together set the framework for doing this.

There have been recent studies of the effectiveness of these policies⁵, which have reached the following conclusions:

- the policy lacks clarity in terms of how it is written by the ODPM and how it is interpreted by local authorities;
- local authorities lack the necessary negotiating skills and processes to apply the policy effectively;
- in most instances, affordable housing provided through planning policy still receives public subsidy and is therefore not truly or entirely additional;
- in many areas, the small number of housing sites coming forward for development means that there are also very few opportunities to secure affordable housing in this way.

In July 2003, the ODPM announced a consultation on revisions to the planning and affordable housing framework. We have not yet fully analysed the implications of the proposed changes. They represent an

⁵ For example: Crook et al (2002) *Planning gain and affordable housing: making it count* York: YPS

important change to the current system but they do not appear to signal a step change in the effectiveness of policy to secure affordable housing from the planning system.

In order to achieve a significant increase in the production of affordable housing in this way, our recommendations to the Barker Review are as follows:

- the policy framework should require that the affordable housing provided under land-use planning policies is additional to that provided by publicly subsidised housing programmes. In other words, there should be a presumption against the use of public subsidy on sites where planning policy secures a proportion of affordable housing within the development;
- central government should establish a much simpler policy framework in this respect, and planning professionals should be receive the training and knowledge required to understand commercial development processes and negotiate successfully for affordable housing whilst not making the development of the site un-viable.

A clear risk in this stronger regulatory approach is that housing sites may not be developed at all, because the developer or landowner considers that the profit from doing so (once the affordable housing and other planning gain has been provided) will be too small.

However it is also the case that the planning system's overall constraints on the supply of land for housing substantially increase land values for sites that do gain planning permission. It is therefore appropriate that an element of this increase in value is captured by the planning system for the production of affordable housing. We therefore recommend:

- the use of regulation to produce affordable housing should not result in sites becoming absolutely unviable, the planning should be re-designed to compel the development of sites for housing, with an element of affordable housing, rather than having to wait for decisions from individual landowners and developers to bring forward development of the site.

6.2 The role of the private rented sector

As we explain above, at the moment the private rented sector is housing *fewer* low-income households each year.

In order to address this issue (and other problems associated with the sector), Shelter and the Joseph Rowntree Foundation established the Private Rented Sector Commission in 2001. This Commission was made up of landlord bodies, tenant representatives, and those who work

within the sector. The Commission's work was reported in *Private Renting: A New Settlement*⁶ and it included far reaching proposals to encourage greater investment in the sector.

Our joint proposals include encouraging large-scale, institutional investment in the private rented sector. This additional investment will increase the overall supply of housing, by introducing development by investors looking for a long-term return on their asset rather than a one-off profit from the land development process. It will also ensure a greater variety of housing provision.

Barriers to greater investment in the private rented sector

In principle, institutional investors are already interested in the private rented sector. The last few years have seen some new entrants into the market: companies such as Aberdeen, Schroders, Charterhouse and ING. The most recent major survey of sentiment among institutional investors detected some enthusiasm for investment in the residential sector.

Nevertheless there are still substantial barriers to be overcome before significant supply will be forthcoming from this sector. These include:

- a lack of suitable investment vehicles. The last attempt – Housing Investment Trusts – was too complicated and was undermined by tax changes. Government has not yet taken up the idea of the Real Estate Investment Trust proposed by the Urban Task Force in 1999;
- tax/fiscal disadvantages in relation to owner-occupation. In particular, there is no tax on imputed rent for owner-occupiers, capital gains tax exemption on the main residence, and differential impact under stamp duty;
- the poor quality of housing management. Corporate investors still perceive a deficit in management skills, and residential property is treated as a secondary area within the surveying profession;
- the structure of the development process, with developers interested in speculative building for sale rather than building to retain ownership and secure a long-term income from renting;
- lack of investment opportunities. There is both a lack of adequately large residential property companies, and a dearth of residential developments in which to invest.

This last point highlights a 'chicken and egg' problem in the development of a significant, long term private rented sector backed by institutional funding. The lack of properties means that there is a lack of investors, and there is a lack of investors because (amongst other things) there is a lack of properties for them to invest in.

⁶ Provided to Kate Barker on 24th July 2003

Government's role in encouraging a larger private rented sector

If new investment went into the building of substantial numbers of new housing for rent, problems of low supply would be addressed head on. Moreover, developments of apartment blocks, typically in inner city areas, are both ideally suited to private renting and can produce wider economic, social and environmental benefits.

It is therefore in government's interest to encourage greater investment, to help meet the need for additional housing supply and to offer housing choices that meet people's lifestyles and aspirations. A framework is therefore needed that will offer institutions an attractive proposition for their investment. In particular, if government wants to encourage good landlords and investment to come into the sector on a longer term basis, it must address the disadvantages that they currently face.

Tax / fiscal framework

Shelter does not advocate tax concessions. In this respect we agree with the 2000 Housing Green Paper's statement that 'We do not want artificial tax breaks that distort investment choices and do not tackle the problems faced by the sector.' However measures are required to generate more investment, to offer developers a sufficient price to make it worth building for rent rather than for sale, and to offer investors an incentive to fund new rental developments.

Options include:

- direct development subsidy. Although feasible in principle, this is no different in effect to an expanded subsidy programme for registered social landlords discussed above (Section 5.2);
- tax credits to provide key worker/affordable housing. This would borrow from the American *Low-Income Housing Tax Credit* model. Developers who agree to build units of housing for rents that will remain affordable for a minimum period of 30 years receive a number of years' of credits to set against other tax liabilities. In our view, this offers much potential to create additional supply of housing for an 'intermediate' rental market – i.e. at rents that are above those set by local authorities and registered social landlords but still affordable to households employed on low incomes;
- modification to the stamp duty framework. Increases in rates since 1997 have made it a significant tax on the private residential sector. As an example, if ten individuals buy ten flats, each costing £50,000, they pay no stamp duty because they are all valued below the threshold. However, if a private landlord buys the same flats as a portfolio, the Treasury would receive a stamp duty windfall of

£20,000, because the total cost of the transaction would be £500,000, and so subject to 4 per cent stamp duty.

Planning framework

It would be possible to modify the planning framework to encourage the development of housing specifically intended for private renting as well as housing for owner occupation. The planning system could choose explicitly to recognise that purpose built housing for private renting will expand the supply of housing, and the range of choice available. This would require policy change within the planning system, which at the moment will not normally consider the tenure of a proposed development (save indirectly where a case is made for affordable housing for people who cannot enter owner-occupation).

Of course if housing developed for private renting is to be considered as meeting affordable housing provision under a planning gain agreement, arrangements will be needed that ensure that rents remain at affordable levels on an indefinite basis, and at a level that meets a need identified in the local authorities' housing needs survey.

Registered social landlords and private renting.

The Housing Corporation and the Charity Commission encourage registered social landlords to adopt a cautious approach to their risk management. However a case can be made that the Corporation's current approach is holding back otherwise welcome innovation, by registered social landlords that have the appropriate market knowledge and management skills to undertake sound diversification into the private rented market.

This would be in the form either of development of market-rent homes, or providing management services to indirect investors in the sector. Where a sound business case can be made for investment in private renting, it does not make sense to have a blanket 'rule' that registered social landlords should achieve this through separate companies with no financial guarantees from the parent organisation. This simply inflates the borrowing costs of the business, undermines the viability of potential investment, and slows the rate of growth in the sector. While some private landlords believe that the entry of registered social landlords on this basis would amount to unfair competition, Shelter recommends that giving more equal tax treatment to the private rented sector would go some way towards levelling the playing field.