Shelter Briefing: Building Our Way Out, the case for social housing investment in the West Midlands

Across England, we are in the midst of a housing emergency. One characterised by high levels of homelessness, expensive private rents, and a severe lack of genuinely affordable social housing. During the pandemic, only half (51%) of private renters in England said their home has made them feel safe and 26% of private renters, in the West Midlands, are worried about their housing situation in the event of further lockdowns.

At the same time, it is clear our housebuilding capacity is also threatened by job losses and businesses failing in the construction sector. Research from Savills, commissioned by Shelter, shows that almost a quarter of a million jobs are at risk in the construction sector and its supply chain unless we take action.

The solution to the housing emergency has always been to build our way out of it, with more decent social rent homes that people on low incomes can afford. Now, in a recession, investing in new social rented housing also holds the key to saving our housebuilding capacity and its contribution to the economy. We need to build back better and level up the country.

To do this, the government must urgently announce a two-year £12.2 billion New Homes Rescue Fund that replaces the existing plans for the new Affordable Homes Programme.

At the next spending review, this should be followed by a new ten-year Level-Up Housing Programme that invests £12.8 billion per year from 2023/24, with an aim to deliver at least 90,000 new social homes per year.

The National & Regional Housing Emergency

It is important to remember that England's housing emergency has not developed overnight. It is the result of four decades of failure to invest properly in the social homes that our country so desperately needs, and the consequences are clear. Even before the COVID-19 pandemic, we lived with the reality that:

- 23,715 people in the West Midlands were homeless on any given night in 2019 an increase of more than 64% in just 3 years.
- Home ownership is in decline, with the English Housing Survey showing that 66% of households in the West Midlands owned their own homes in 2018/19, down from 72% just over a decade ago.
- Private renters now spend an average of 40% of their household income on rent, with such high costs making the chance to save and move into homeownership a pipe dream for many. In the West Midlands 48% of private renters say they find it difficult to save for the future after housing costs.
- Last year just 1,660 new social homes were built across the entire West Midlands.

The government rightly sees addressing these housing challenges as a priority and has promised to deliver one million new homes, over the coming parliament. However, the types of homes we deliver is just as important as the number and, at this moment, there is an overwhelming need across the country for more social rent housing to be provided.

Social rent – unlike other affordable tenures – is affordable by design. Social rents are calculated using a formula that takes into account local incomes, not just market prices. In addition, social housing provides individuals and families with the security and stability they need to build a foundation and prosper. However, despite these obvious benefits, successive governments over the last 40-years have failed to adequately prioritise this tenure.

The Chancellor has taken bold action to protect jobs throughout the coronavirus pandemic, we need an equally bold approach, if we are to end the housing emergency and protect the housebuilding economy.

If the government were to invest in social housing now, it would have three key impacts:

1. Delivering 50,000 social rented homes over the next two years, which represents big step toward ending the housing emergency and ensuring people - especially those on low incomes – have access to a safe, secure, and affordable home. This is more vital than ever in these current times.
2. Protecting vital jobs in the construction industry through a recession and helping ensure that England does 'build back better'.
3. Delivering a levelling-up agenda across the country. One that puts homes at its heart and, in doing so, enables people and families to thrive and take advantage of new opportunities being created.

In addition to these reasons there is a fourth key reason to be investing in new social housing: its overwhelming popularity. Exclusive new polling conducted by YouGov for Shelter shows that 39% of people in the West Midlands think building more social homes would be the most effective way to solve the housing crisis. Social housing was the most popular answer when compared with other tenures, including building homes for private sale (14%).

A Housing Emergency in a pandemic

For everyone, the past six months have been a challenging time of difficulty and sacrifice. However, for those in inadequate housing, the challenges have been that much harder. In the West Midlands 37% of private renters said they would be worried about their mental health in the event of further lockdowns and 26% worry about their housing situation in such an event.

The pandemic may not have created the housing emergency, but its effects will certainly not help to resolve it. Hundreds of thousands of people are already facing job losses, with 3 million new claims for support via Universal Credit having been made since March 2020.

The lack of safe, secure and affordable social housing has been felt across the country and, in the West Midlands, 55% of private renters think that the government needs to do more in order to solve the housing crisis.

Building Back Better, Building Social Housing

Across the political divide, there is currently a recognition that, when we emerge from the pandemic, we must launch a programme of investment that will see jobs protected and the country build back better. For Shelter, the case for social housing to be at the heart of this recovery is as clear as it could be. The reasons for this are simple:

1. **Private housebuilding is at risk of a collapse:** In turbulent economic times, it is an inevitability that private housebuilding supply will contract and the risk of a collapse in private housebuilding in the coming months is a very real one. Analysis conducted by Savills, on behalf of Shelter, earlier this year shows that as many as 300,000 homes that we might expected to be built in the coming five years are now at risk.

   Such an outcome would be far from a historical anomaly. A contraction in private housebuilding output has been a feature of all recessions in recent times. The result is lost homes, lost jobs and a reduction in the number of SME builders. For example, between 1988 and 1992 private housing starts fell by almost half.

2. **A jobs led recovery needs social housing:** Right now, almost a quarter of a million jobs are at risk in the construction sector and its supply chain. This risk, like the risk to housebuilding numbers, stems from the reality that the private housebuilding industry is likely to reduce output in uncertain economic times. For those who rely on the actual building of homes for a living, this will mean a deeply challenging time.

   Again, the realities of the past are also important to consider here. Following the Global Financial Crisis, more than a third of SME housebuilders left the industry.

3. **Need for social housing is overwhelming:** As Sir Oliver Letwin found in 2018, the demand for social housing is virtually unlimited. There are currently 1.16 million people on social housing waiting lists including more than 100,000 in the West Midlands alone. In addition, 93,000 households in England live in temporary accommodation and rough sleeping has increased 141% since 2010. In many ways this is the tip of the iceberg in terms of demand for social housing with

recent analysis from the National Housing Federation suggesting that as many as 500,000 additional households would be best housed in social housing right now.

Clearly, if we are to have any hope of building back better, social housing will have a huge role to play thanks to the latent demand and its counter cyclical nature. Without it, we will face a reality of lost homes, lost jobs and missed opportunities.

Levelling Up Through Social Homes

All too often, the housing crisis is presented as a singular issue, with a single national impact. In reality, housing in England is not one market, but a series of localised markets that reflect different communities, neighbourhoods, and situations. Moreover, a lack of social housing across the country is often a unifying factor in the challenges that these distinct local markets face. We see this in:

- Big cities like Manchester, with spiralling numbers of homeless households and rising private rents.
- Growing cities like Wolverhampton, where increasing economic growth and private investment is set to increase housing pressures in future.
- Underinvested in towns like Blackpool, where slum-like private renting can't offer decent or secure housing.
- Rural areas, like the area around Harrogate, where local people are priced out by holiday lets.

The government is clearly well aware of the challenges that many parts of the country currently face, and its commitment to a levelling up agenda is a welcome one. Yet, there can be no levelling up without investment in social housing.

Public investment in trainlines, bus routes, business infrastructure and new schools can have significant impacts on a local area and its people. Access to new amenities, new places within commutable distance, and new employment opportunities are the stated aims. In many cases, these benefits do follow.

But, without a housing offer, that provides a secure foundation for communities that live in these areas now, investment of this kind can present new challenges. Without due attention, local housing emergencies experienced by local people can be created and exacerbated, meaning the positive impacts of such investment are not felt by all of the existing community.

The disastrous effects of failing to consider genuinely affordable housing, alongside infrastructure spending, can be seen in places like the city of Manchester. The huge inflows of private investment and development that tend to follow economic growth and new infrastructure can push housing costs beyond the means of people on local incomes – who, in the short term, might not benefit directly from renewed interest in their area.

Providing genuinely affordable housing, at rents linked to local incomes is *the* way to centre the people that live in underinvested areas in the levelling up agenda. It can facilitate the much-needed growth of economies like Wolverhampton's, while preventing the housing emergencies of these places from reaching the severity of somewhere like London or Manchester. The undersupply of stable, low-cost, social rent homes in places undergoing rapid economic change has undermined the resilience of those places and their communities. Instead of benefitting from it – of being levelled up – they have been left behind by it. Their housing crisis has worsened.

Levelling Up: Building for the future in Wolverhampton

Key challenges:

- High current and projected housing need
- High growth prior to the pandemic, but vulnerable to recession
- No grant for social rent housing since 2018

Key statistics:

- 648 people owed a homelessness duty (January to March 2020)
- 7,523 households on social housing waiting lists (2019)
- 62% of private renters in receipt of housing benefit (May 2020)

Housing need in Wolverhampton is high. The council's social housing waiting lists stands at 7523. Affordability challenges have increased in recent years with house prices increasing faster than incomes. The city's proximity to Birmingham also pushes up the need for new, low cost housing.

For the city itself, more change is on the horizon. Wolverhampton is part of the West Midlands Combined Authority (WMCA). The WMCA is a key centre for economic growth and an important part of the government's levelling up agenda. The WMCA has set out a 30-year plan for investment in skills, innovation and transport, energy and digital infrastructure aimed at stimulating economic growth and boosting the region's GVA (gross value added).

As a result, the city of Wolverhampton has become one of the fastest growing economies in the UK in recent years. Private investment in the city has skyrocketed and plans for economic regeneration paint a picture of a fast-changing city in the near future. Housing growth is central to this vision as set out in the City's Housing Strategy 2019 – 2024.

It **is crucial that existing communities see the benefits of the broader economic improvements happening around them.**

Wolverhampton is also a city whose economy especially vulnerable to the recessionary impacts of the pandemic, despite enjoying high growth in the years leading up to outbreak of COVID-19. Analysis by the Joseph Roundtree Foundation ranked Wolverhampton at 11th in local authority economies where recovery from COVID-19 would be hardest, with a potential unemployment peak of 18%

With the City growing rapidly prior to the pandemic, housing investment and the resulting construction work had been identified as a key source of new employment opportunities. These jobs are reliant on a continuing flow of housebuilding. Without counter-cyclical investment in housebuilding in the form of grant for social housing, the construction sector in Wolverhampton is at risk of a backwards step. Arbitrary restrictions on accessing funding in schemes set out over even relatively short periods of time can quickly become an impediment to addressing emerging needs in the community.

Just one year on from the reintroduction of grant for social rent in the Affordable Homes Programme, the gap between private and social rents in Wolverhampton grew above the threshold for accessing that funding. But Wolverhampton remained unable to bid for grant to deliver social rented homes because the eligibility list - which excludes all authorities where this difference was less than £50 *in 2018* - has remained static from June 2018.

Guidance attached to the new Affordable Homes Programme says social rent homes will only be funded by the programme in areas of "high affordability challenge". At the time of writing, it is not clear how these areas will be identified and whether Wolverhampton will make it onto that list. But what is clear is that restrictions will continue to apply.

The restriction in accessing grant for social rent limits the city's ability to plan ahead on the same timescales it can for economic and population growth. Forward-looking projections like the those made in the Black Country Urban Capacity Review are limited in the extent they can influence actual housing delivery. Wolverhampton cannot guarantee that these new homes will be affordable to existing and new communities. Delivering genuinely affordable homes in the right places in cities like Wolverhampton requires a proper commitment and a fresh approach to grant funding for social rent.

Building the Social Homes We Need

We cannot ignore the housing emergency in England during this pandemic. Nor can we ignore the need for action now in order to save housebuilding from collapse and to set the foundation for building back better and levelling up. Shelter proposes:

1. **A two-year £12.2 billion New Homes Rescue Fund that replaces the existing plans for the new Affordable Homes Programme.**

England has a tradition of looking to investment in social housing as a tool for providing emergency housebuilding support. The Conservative government of John Major did this in 1992 and the Labour government of Gordon Brown followed the example in 2007. On both occasions, this investment led to an increase in the delivery of social rent housing.

Shelter's proposed package would be a bigger investment than either of these previous iterations. However, today's investment would be coming from a lower base, where the collapse in delivery of social housing over the past decade has left us over reliant on private sector housebuilding and lacking in resilience to face such a challenge as we now do.

The financial impact of this package would be an increase in effective grant for affordable housing from £2.44 billion per year to £6.1 billion per year.

Shelter recognises that there are legitimate questions about whether Whitehall could deliver a grant programme of this scale. The £700 million underspend on the current – much smaller – Affordable Homes Programme does not augur well for increasing the budget. However, the cause of the existing underspend is an overly restricted programme that has diminished the role for social housing. By putting social rented housing back at the heart of our grant programmes, we can address this issue.

2. **A new ten-year Level-Up Housing Programme that invests £12.8 billion per year from 2023/24, with an aim to deliver at least 90,000 new social homes per year, to be announced at the next full spending review.**

The New Homes Rescue Fund should be followed with a long-term grant programme of sustained, substantial, investment. This programme will deliver an average of at least 90,000 social rented homes per year, to fundamentally reset the country's level of social housebuilding and end the housing emergency for good.

The Level-up Housing Programme, with enough grant for 90,000 new social rented homes a year, is what the country needs to turn the tide on the housing emergency. It will deliver significant benefits to the country and our economy as well. New research that Shelter have commissioned from Savills shows the extent of the benefit that the proposed investment will make over the four years of the next Comprehensive Spending Review. It would:

- Deliver an additional 156,700 social rented homes;
- House an additional 77,000 homeless households;
- Support an additional 410,000 jobs;
- Add £15.2 billion to the economy.

3. **Making technical changes to enable more social homes to be delivered.**

New investment alone will not achieve the level of delivery we need. The government must also make technical changes to reprioritise social rent housing. These changes include:

- Setting an 80% floor on the share of future grant funding restricted to social rent housing.
- Increasing the available grant rate per new social rented home.
- Removing geographical restrictions on eligibility of grant for new social rent housing.
- Removing 'Affordable Rent' from eligibility for future grant funding.
- Allowing for greater flexibility in grant spending during this economic crisis, including enabling the purchase of distressed market schemes for use as shared ownership.

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