

Quantifying the need for social housing

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Social housing in England has been provided to support individuals and families who are not served by the private market. The stock of social homes has declined significantly in recent decades; currently, around 17 percent of English households live in public housing, this is down from around a third of households in the late 70's.

In January 2018, Shelter brought together 16 commissioners from across the political spectrum and from different backgrounds and perspectives, to consider the role of social housing in the aftermath of the Grenfell Tower fire. The commissioners arrived at the view that the current provision of social housing is not proportional to the scale of the housing crisis. As a result, commissioners requested that Shelter estimate the number of social homes required to meet their vision for social housing.

This paper details the analytical work carried out on behalf of the commissioners to quantify the numbers of social homes required.

Summary

Commissioners requested that we develop scenarios for the future supply of social housing, the final outcome of which was the identification of three groups that commissioners believed the offer of a social home should be extended to:

1. The backlog of unmet need – households in greatest need now

To support households in greatest need now, that is households we identify as the backlog of unmet housing need, would require **1.3 million social homes**

2. Younger trapped renters in the private rental sector

A further **1.2 million homes** would be required to address the anticipated increase in existing and newly forming lower income young households who are not expected to be able to afford home ownership in their lifetimes.

3. Older renters in the private rental sector

Finally, to house older (aged 55 and over) households on lower incomes in the private rented sector would require **690,000 homes**.

If all these needs were to be addressed through social housing over a 20-year period, **3.1 million social homes** would be required

Identifying the needs to be addressed by new social housing supply

The steadily declining stock of social housing in England combined with worsening housing affordability across the private market means that we currently have significant numbers of households whose housing needs are inadequately met. The challenges include:

- Households living in substandard or overcrowded conditions in the PRS;
- Households in need of stability, for example people living with a disability or long-term illness and older households who are currently living in the PRS
- Young households unable to access home ownership as a result of increasing house prices, and higher deposit requirements.

These problems primarily relate to those currently housed in the private rented sector (as well as homeless households) however, the scenarios for increased social housing supply Shelter estimate would, if fully realised, substantively alter the options for all households regardless of their tenure preference. A reduction in demand for private renting would have impacts on the housing system, as a whole. It is, however, beyond the scope of this paper to model these impacts.

The wider impact of greater levels of social housing supply

The housing system overall is dynamic and complex; as are the needs of households. To fully model the different forms of housing need arising from social, economic and demographic factors over time; in different English regions; and to correctly account for how these all interact when the supply of new social homes is increased is beyond the remit of this paper. We have, instead taken a pragmatic, and static, approach to quantifying need – one which allows for a transparency in how we have achieved our estimates. Further work would be needed to account for changes to the wider housing market as new social homes are supplied, considering factors such as the impacts on demand and on standards across the market. It is also important to note that any attempt to quantify this need, whether statically or dynamically, is always dependent on assumptions that can weaken significantly; particularly over a 20-year time horizon.

Stock and flow

The starting point for this analysis is a normative view on what constitutes *unmet need*. We quantify this in two ways, estimating the existing stock of need, and projecting the flow of need in the future. Stock refers to a total that exists now and needs to be cleared; while flow describes the new demand that occurs/ arises in each of the 20 years of our analysis.

New lettings arising from vacancies in existing social housing go some way to addressing the needs of households that exist now. Allocations policies vary by local authority but will tend to prioritise households in greatest need and we have assumed for the sake of this

analysis that those households will continue to be served in this way. Every year new households enter the social rented sector; the last administrative data on General Needs social rented properties¹ show that 35,000 came from the PRS, 3,400 came from owner occupation; many others come via temporary accommodation (19,000), previously living with family or friends (43,700), or some form of other insecure situation² (18,700). However; these numbers are bound by a constrained supply: if insufficient social homes become available in any given year to meet need, it is not met straight away.

The three sources of unmet need that we have focused on are:

- 1) The backlog of unmet need.** These are households who, in theory, should be prioritised for social housing within the current system but whose needs are not currently met. This includes homeless households in temporary accommodation, 'hidden' homelessness and people living in poor and overcrowded conditions within the PRS. A static estimate of this 'backlog' can be quantified from existing sources.
- 2) Trapped renters;** those we predict will be unable to buy in the private market. We define this as households who would not be able to buy their first home by the age of 40. The Resolution Foundation recently published a paper on this subject³, describing the worsening picture for young people hoping to buy a home. They found that younger generations were less likely to be on the property ladder by their 30's and 40's when compared with the baby boomer generation.
- 3) Older renters.** We know the lack of security in the PRS can be particularly challenging for people forced to rent into their later years. We have quantified this as a flow of households reaching 55 or older and still in the PRS, which can be estimated from official household projections and survey data. These households are excluded from our trapped renters' analysis.

The definitions of each of these groups and their size (either as a backlog or the flow of new households meeting the definition) are addressed in turn in the remainder of this paper.

¹ CORE - This is published annually by MHCLG, and is administrative data.

² CORE describes this group as 'Other' – i.e. housing, housing for older people, residential care, women's refuge, mobile home, asylum support, children's home, rough sleeping, short life housing, foyer, other.

³ Corelette, A; Judge, L; Home Affront; housing across the generations; September 2017; Resolution Foundation.

The backlog of unmet need

Social housing is allocated using *reasonable preference* as a guidance for authorities to define households in need. Though the criteria are applied in a range of different ways, taking account factors such as the households connection to the local area, they provide a widely recognised definition of need which should be addressed through social housing. The main issues that should give households reasonable preference in the allocation system include:

- Accepted as homeless
- Living in poor conditions
- Living in overcrowded conditions
- Living with a long-term health condition or disability.

Extra priority is also given to people with urgent needs such as being at risk of violence. Former members of the armed services also receive additional preference.

There is a continuous flow of households presenting in these categories, a proportion of whom would be on the waiting list for social housing. Some would eventually successfully secure a social tenancy, others would find their circumstances change and they do not remain in need, still others would remain with unaddressed housing need long-term.

However, whilst the individual households who make up this backlog will change, with households moving in and out, the overall size of the backlog at any given time speaks to the shortage of available social housing. Though an imperfect measure, we have assumed that the size of this backlog represents a need to be addressed through the provision of new social housing supply. We have also assumed that, if this backlog is addressed, we would reach a point where the flow of newly arising need (households becoming homeless, escaping domestic abuse, living with long term illness, etc) will be in equilibrium with the available lettings. As such we have excluded these flows in the measure of unmet need. The table below sets out in summary the backlog (or stock) per category of need

Backlog – summary of unmet need (number of households)

Homeless in temporary accommodation	79,900
Rough sleeping and hidden homelessness	128,000
Overcrowded	240,000
Living with poor conditions in the PRS	631,000
Ill health/disability	194,000
TOTAL	1,272,900

Criteria and definitions

Criteria	Definition	Estimate (expressed as households, to nearest 1000)
Homeless households in temporary accommodation⁴	All households accepted as homeless that are currently in temporary accommodation. We assume that the flow of need arising from newly arising homelessness would be addressed new lettings within the expanded social housing stock. We have assumed no overlap between this group and other criteria	79,900
Rough sleeping and hidden homelessness⁵	This analysis includes a broad definition incorporating estimates of the number of people sleeping rough, sleeping in cars and tents, public transport, squatters, people in refuges and shelters, sofa surfers and other 'hidden homeless'. Although the flows into and out of this category are likely to be substantial, it is assumed that this can be treated as a backlog for the purposes of analysis. Because these households are not being accommodated we assume in the analysis that they do not overlap with other criteria.	128,000
Overcrowded in the PRS (based on the bedroom standard)⁶	Overcrowding is defined under the 2006 bedroom standard, which relates to the number of bedrooms required by a household; based on the ages and relations of household members.	240,000
Living in poor conditions in the PRS⁷	As part of the English Housing Survey, a sample of homes are surveyed on their physical conditions. Homes can fail on a number of categories however we have focused on one, hazardous conditions (HHSRS26) – homes that have at least one Category 1 risk that could be hazardous to its residents. There are 680,000 households in total, of which 49,000 are also overcrowded – these are excluded from the total to prevent double counting	631,000
PRS households living with a long-term illness or disability, or caring for someone with these issues⁸	All PRS households with a disabled household member, and income (After Housing Costs - AHC) of less than 60% of the median; the relative poverty indicator. There are 491,000 households with a disabled family member in the PRS, of which 240,000 have a head of household under the age of 45. Older households are excluded as accounted for elsewhere in analysis. The estimate of 240,000 households includes households living in homes of poor condition. To account for this overlap (estimated as 1/5 th of households) the number of households included as part of the backlog has been reduced accordingly	194,000

⁴ MHCLG – Statutory homelessness and homelessness prevention and relief (table 775) This shows the stock of households in TA in any given year.

⁵ Bramley, G, Homelessness projections: core homelessness in Great Britain: summary report, Crisis/Heriot Watt University, 2017

⁶ English Housing Survey, 2015-16

⁷ English Housing Survey, stock conditions data module (2016)

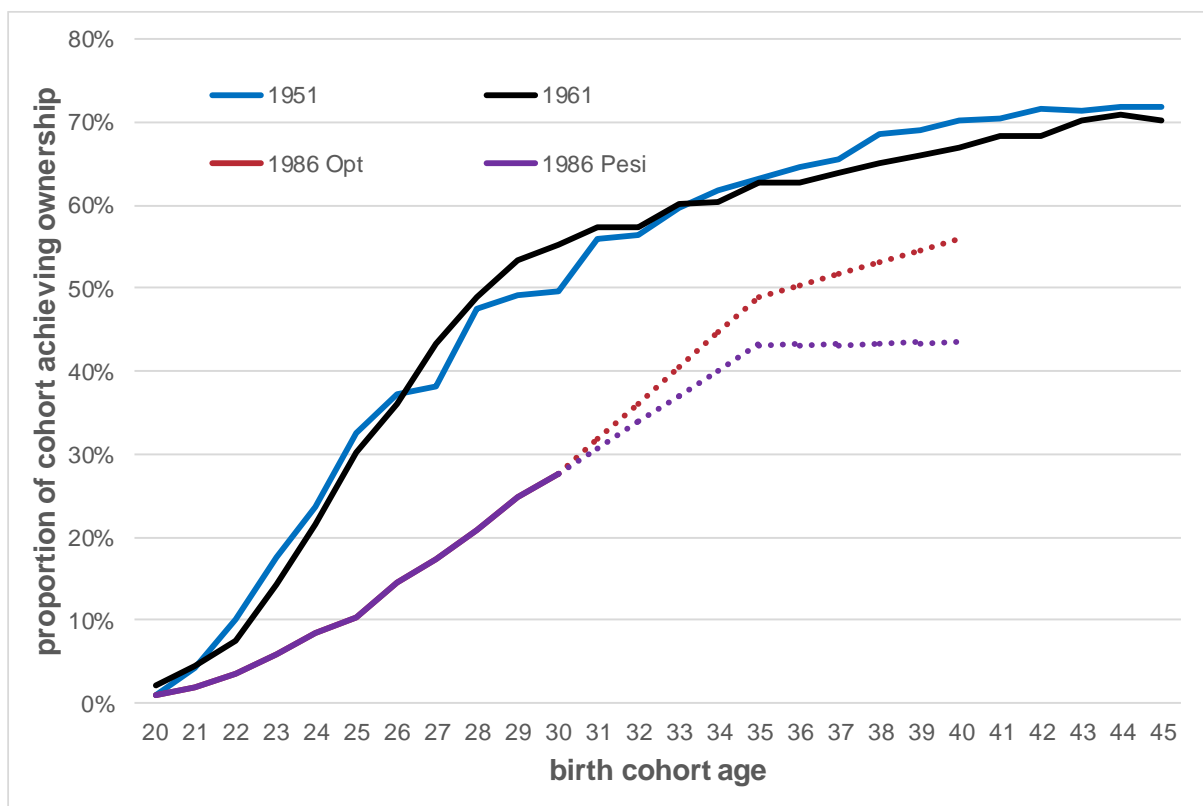
⁸ English Housing Survey, 2015-16

Trapped renters

There is growing evidence⁹ that due to the high cost of housing now, young households today will be less likely than earlier cohorts to be able to save a sufficient amount for a deposit to get a foothold on the housing ladder. Currently these trapped renters are likely to have no other option than to spend their entire lives in the PRS.

Increasing social housing supply to a degree that it provides a realistic alternative option for these households, providing a high quality secure form of tenure for those unable to own, would increase the proportion of housing stock in the social sector and have an impact on the demographic profile of the sector, reducing the degree of residualisation.

Ownership rates for households by generational cohort (actual and projected)



Analysis undertaken by the Resolution Foundation shows that households born in the 1950s and 60s (the black and blue solid lines in the chart above) had a 71% chance of eventually becoming home owners. Because young people now have bigger financial hurdles to

⁹ Resolution Foundation published Home Affront in 2017 looking at the impact of house prices on different 'generations'; this work was inspired by an earlier paper in 2015 from the Institute of Fiscal Studies which attempted to test whether the gap in ownership rates by age currently being seen would close in later years. The IFS paper estimated that on average only 80% of the gap for generations at 30 would be closed by the age of 45. Similarly, the average age of first time buyers - is now at 31 years of age

overcome, the Resolution Foundation estimate that this will impact on current generational cohort's ability to own; these are illustrated by the two dotted lines for 1986¹⁰ cohort. These lines are the pessimistic and optimistic projections of ownership rates based on different levels of housing costs and mortgage availability. Research suggests that at age 40 ownership rates tail off – if you are not a home owner by 40 it is much less likely that you will go on to be so later on in your life.

Ownership rates for 1986 age cohort – observed and predicted for 1986 cohort

	Age 25 (observed)	Age 30 (observed)	Age 35 (predicted)	Age 40 (predicted)	p.p. increase in trapped renters compared to baby boomers
<i>Baby-boomers – observed ownership</i>	31%	52%	63%	69%	-
1986 cohort – pessimistic projection	10%	28%	43%	43%	25pp
1986 cohort – optimistic projection	10%	28%	49%	56%	13pp
Mid-point between optimistic and pessimistic projections	10%	28%	46%	50%	19pp

The pessimistic projection puts homeownership rates amongst the cohort born in 1986 at 25 percentage points below the peak ownership rate of 69% (at age 40) achieved by the baby boomer generation at 40 years of age. The optimistic projections estimate ownership rates amongst the 1986 cohort at 13 percentage points above the peak with a mid-point estimate at 19 percentage points.

As this cohort is currently unlikely to access social housing, it is reasonable to assume that they will remain in the private rented sector long term. To provide social housing as an alternative to home ownership for this cohort, we have projected how many households would need to be housed within the social rented sector to address *the gap between ownership rates achieved in the past and Resolution Foundation's projected ownership rates*. Note that we do not propose social homes for all trapped renters, only that the *gap*

¹⁰ 1986 is the last age cohort Resolution Foundation have been able to estimate ownership rates at 40 for. The 1991 cohort also showed much lower rates of ownership at 30 years, but to extrapolate from this to 40 would be guessing only.

between ownership rates (achieved/projected) for the baby boomers and trapped renters cohorts will be addressed through the provision of social housing.

Calculating the number of social homes required for trapped renters

To determine how many social homes are required to address the gap, our estimated percentage point increases (pessimistic, optimistic and mid-point estimate) should be applied to an estimate of future household numbers.

In our calculation of the future flow of trapped renter households we have used the official population projections. This means we can estimate the number of people reaching the age of 30¹¹ in the next 20 years. We have assumed this population forms households consist of two adults¹². The results are presented in the table below.

Results

	Single year average	Total over 20 years
No of individuals reaching 30 between 2019-2039	614,361	12,287,222
Households (2 adults)	307,181	6,143,611
Trapped renters optimistic scenario (13pp)	39,933	798,669
Trapped renters mid-point scenario (19pp)	58,346	1,167,286
Trapped renters pessimistic scenario (25pp)	76,795	1,535,903

To provide social housing for 19% of households who will reach 30 years of age, over the next 20 years, would require 58,350 social homes to be built each year – or 1.2 million homes over 20 years.

¹¹ Average household size (accounting for adults only) has been set at 2.0.

¹² We have used population data rather than household formation projections to avoid a common criticism levelled against the latter source. Household formation projections may be affected by the supply and/or affordability of housing (whether that be to rent or to buy) which means the number of homes required could be underestimated because households chose not to form because they cannot afford to. This could be young people living at home with parents.

Older renters

The final group we identified as potentially struggling in the PRS are older households. Older renters face particular challenges, including a lack of security of tenure and continuing high housing costs when income is likely to fall in retirement. Aging households will find it increasingly difficult to get access to a mortgage, as it will have less and less time to pay off the debt. However, even if retirement ages continue to rise, older workers are at a greater risk of ill health and may find themselves without a wage to cover the rent.

According to the most recent English Housing Survey, 10% of 55-64 years olds are in the PRS now, this falls to 6% at 65 and over. We use these proportions to model future numbers of older renters. This is a very conservative assumption.

Household estimates by age group and estimated PRS population

	2039 Household projection	PRS Households (using % based on 2016/17 EHS)
55-64	4,379,165	420,400
65-74	4,218,097	265,740
75-84	3,770,596	237,548
85+	2,209,107	139,174
		1,062,861

If we use these current values on the projected household numbers in 2039, we could potentially see over one million older households in the PRS. We have assumed that older households on low incomes are in greater need than higher earners. The English Housing Survey indicates that there are 223,000 households aged 55 or older in the PRS who are in the top 40% when it comes to incomes (after housing costs are deducted).¹³

Proportion of households by age of HRP above or below median household income – using equivalised incomes after housing costs (EHS 2015/16)

	private renters		Owners	
	Under 55	55 and over	Under 55	55 and over
above median income	31%	35%	64%	65%
below median income	69%	65%	36%	35%

¹³ This estimate is again based on the EHS 2015/16 data, and uses equivalised incomes after housing costs; however, the narrow definitions mean the statistics are less reliable as they are based on a small number of survey respondents.

We have included both owner occupation and PRS for comparisons only, the owner occupation numbers do not contribute to the estimate. We have adopted the median income as a threshold for older households rather than a lower value, as older people are often excluded from getting a mortgage due to their age and not only a low income.

We have used incomes after housing costs here because the type of tenure, and more importantly its relative cost, has a significant impact. This data indicates that less than two thirds of households (65%) with the head of the household aged 55 or older will be in the private rental sector have an income below the national median.

As a result, we suggest the number of homes required resulting from older renters is 690,000.

Combining estimates and final results

The groups we have presented have some degree of potential overlap and we have attempted to account for these where possible, both within groupings (i.e. in the backlog of need) and across them. The assumptions we have made to do this are explained below.

- It is possible that there is some degree of overlap between the backlog of housing need and trapped renters. Our definition of trapped renters is limited to households that, in a previous generation, would have been able to access home ownership. It is unlikely that even during the peak of ownership that this would have been accessible to substantial numbers of the households we see within the backlog of need, therefore we can assume the impact of any overlap is not consequential to the overall vision.
- There is no overlap between trapped renters and older renters because there is more than a 20-year age gap between the two groups; the *oldest* trapped renter (30 in 2019) will not reach 55 during the 20-year period.
- We sought to minimise potential duplication between our definition of the backlog of need and the definition of older renters. We have excluded older people from the definition of people living with disabilities and health conditions within the backlog. Other overlaps are possible, but given our estimate of older renters is very conservative (based on the existing proportion of older households within the PRS), we do not believe this would create an over-estimate overall.

Further work on quantifying the potential overlaps and the impact of supply on these sources of demand could be conducted.

Results summary

	Households
Backlog of unmet need	1,272,900
Trapped renters	1,167,300
Older renters	690,900
TOTAL	3,131,100

Numbers have been rounded to the nearest hundred.

Over 20 years our supply, covering the backlog of unmet need and trapped renters would take a significant number of households out of the private sector and into social housing. In total we estimate that 3.1 million homes are needed to make a significant change to the housing system; clearing a backlog of unmet need in the housing system now, giving choice to young renters who may not have access to ownership; and to provide housing for older people looking for affordable and secure homes in their old age.