Fair Rent Homes

An affordable alternative
for hard-pressed renters

shelter.org.uk

Shelter

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Foreword

At Shelter, we are used to helping people through a crisis, finding solutions and standing alongside families who are staring homelessness in the face, either immediately or just around the corner. We do whatever we can to help, advocating for our clients against rogue landlords and cash-strapped, stressed local authorities. I am proud that we are there when things suddenly become terrifying and too hard to deal with, steering people through what is often the worst time of their lives.

But the housing crisis our society faces isn't just about one-off catastrophes. Actually, more often, it is a chronic condition, just as harmful, but far more difficult to mark as "case closed". The private rented tenancy which brings an immediate homelessness crisis to a close may simply defer the problem for six months. High rents mean that successfully helping someone into work will not end their reliance on a bureaucratic and unreliable housing benefit system. And the chronic insecurity of a lifetime of short-term private tenancies triggers no public policy intervention but leaves people unable to ever truly know the meaning of home.

Housing options for people unable to afford choice and quality in the market are simply not good enough. To qualify for social housing you have to meet ever-tightening criteria, and many first spend a length of time in temporary accommodation that is too often traumatic in itself. Many, many more fall through the cracks and find themselves in no man's land: not in quite enough need to qualify for social housing but without the means – even if in work - to have any power in the market. These are the "just about managing" families. But frankly, if having no prospect of meeting your fundamental need for a stable place to live does not count as deprivation, we need to think again.

Of course, the government is concerned that the housing market is not working for everyone. But government interventions have failed to rise to the scale of the challenge. Initiative after initiative tries to find ever-more creative ways to support home ownership but have ignored the struggles of those unable to afford even the lowest rungs of the housing ladder. Home ownership is no panacea. Politicians have failed to appreciate the extent to which people's housing options have narrowed. The "just about managing" households are not managing. They are not worried about making their mortgage payments. They are worried about unaffordable rents. Generous government schemes to boost deposits mean nothing when many cannot even afford to save £10 a month and are forced to move with bewildering frequency.

It cannot be acceptable to expect so many households to be resigned to this future and denied the freedom of affordability and security that others take for granted.

Now is the time for the government to prioritise those stuck in the private rented sector and a long-way from home ownership. New measures to improve the private rented sector, the recognition of the value of council housing and new money for social rent are a welcome start. But the scale of the problem demands bolder solutions still. Shelter is calling for a new generation of Fair Rent Homes, with rents set in line with lower earnings, and ensuring people have the breathing space to save for the future.

Housing policy must aim to do more than relieve acute need at one end and cater to aspiration at the other. Over 1.3 million households are trapped in rents that leave them unable to afford a decent standard of living. Improving their housing is one of the most effective tools the government has to improve living standards, increase housing supply and truly enable those supposedly "just getting by" to get by. The alternative is forcing families into deprivation.

Polly Neate
Chief Executive

Executive summary

There is now agreement among both public and politicians that England is experiencing a housing crisis. But the effects of this are not universal; instead they are borne most heavily by lower income households. Some are homeless and unable to house themselves altogether. Others are struggling to thrive in a social rented sector that has been allowed to decline and cannot meet need. But the largest number are low to middle income private renters bearing the burden of high rents, insecurity and poor conditions.

Shelter's inaugural Living Home Standard, launched a year ago, highlighted how poorly served many private renters are. Half could not afford their housing costs and nearly three in ten lived in substandard conditions. These day-to-day struggles occurred against a backdrop of insecurity.

The shift in the way in which people are living is enormous, but successive governments have been slow to respond. Over two million more households are renting privately compared to a decade ago and they now account for one in five of the population. Families with children have borne the brunt of this. Ten years ago just one child in ten lived in the private rented sector; now one in four are growing up amid insecurity and high rents.

Of all people, private renters spend the highest proportion of their income on housing costs. Nearly one in five private renters who are in work now need additional support from housing benefit. And private renting has become the leading single cause of homelessness, fuelled by short-term tenancies coming to an end and a lack of affordable alternatives for private renters to move on to. This has to change.

The response by recent governments has been to focus on private renting as a symptom of falling homeownership rather than address the impacts on people's budgets, sense of stability, health and well-being. While the government concedes that the housing market is broken, the challenge of whether the market can ever deliver for people on lower incomes has not been addressed. Policy interventions have sought in vain to move households into homeownership but have been unable to address the fundamental challenges of falling supply, high prices and low incomes.

This report sets out the need to accept current realities and provide a better offer for hard-pressed renters. The market is currently failing drastically to meet their needs and there is a need for a sub-market alternative that responds to affordability pressures and the understandable urge for security. It makes the case for a new generation of homes at Fair Rents, priced at levels that people on lower incomes can actually afford and with rents that are linked to incomes and not a broken housing market. Longer tenancies would recognise people's need for stability and provide breathing space during which households could save towards a deposit.

New analysis of hard-pressed renters' earnings and assets underscores the need for a new approach that provides an

1.6 million households

are private renters under 55 whose incomes are too low to afford shared ownership

alternative to the private rented sector and circumvents the barriers inherent to homeownership models. Analysis by Shelter of current private renters has identified a group of 1.6 million households under 55 whose incomes are too low to afford shared ownership. For many of these this is not just a story of thwarted aspiration but constrained living standards: 1.3 million households are left below the Joseph Rowntree Foundation's Minimum Income Standard after paying rent, severely restricting their ability to save and putting them at risk of financial hardship.

The report also confronts the difficulties facing the social housing sector and its lack of capacity to respond to current need. Reliance on the private rented sector has grown not just as a result of falling homeownership, but also the inability of an underfunded social housing sector to meet the needs of low-income households.

Social housing has been steadily marginalised over the past 40 years, as a result of well-intentioned reforms to link it more explicitly to the safety net (through prioritising homes for homeless families) and deploy the assets tied up in existing stock to greatly expand homeownership via Right to Buy. Both reforms occurred amid a backdrop of falling new supply, meaning overall stock has declined sharply and become skewed heavily towards those on the lowest incomes. It has been refashioned as a safety net and in many areas is now struggling to perform even this most basic function.

The result is now that, despite widespread agreement of the scale of the housing crisis, social housing is not front and centre of the solution for neither the public nor politicians. In fact, despite demonstrable problems in the private rented sector, fewer than one in ten private renters are on a waiting list for social housing and new research for Shelter finds that over half wouldn't be happy to live in social housing, or for their friends or family to do so.

Fair Rent Homes are an attempt to cater for a demographic who are bearing the brunt of past failures of market and social housing. They are too poor to buy but unlikely to qualify for a diminished pool of social housing against a 1.2 million strong waiting list. The result is that while they are strongly supportive of new social housing, only a third of private renting 'JAMs' feel that social housing exists to help people like them or their family.[1]

New Fair Rent homes would be allocated outside existing allocation policies and available to a broad group of households on average incomes and below. Providers would be able to set restrictions on who could qualify to ensure that they are restricted to households who need a sub-market alternative, but Fair Rent homes would seek to mimic the early 20th century vision for public housing: providing good quality homes for a broad range of households.

Unlike existing intermediate products – or indeed so-called Affordable Rent – Fair Rents would be genuinely affordable to low income households and priced in line with local incomes. We put forward a model that sets rents at a third of the 30th percentile of gross local incomes. This would significantly improve affordability for households in areas with high housing costs, and

1 YouGov survey of 3981 private renters in England 18+, online, weighted, August 2017.

also address the pitfalls of the Affordable Rent model for low income working households.[2] The breathing space created by lower rents would give people the chance to save for a deposit, potentially moving into homeownership in the long-term, and offer an immediate boost to their living standards.

Amid an overall target of 250,000 new homes a year Shelter recommends that 50,000 homes are built at Fair Rents. This would contribute to overall delivery, including providing an important supply of new homes during any future downturn. More importantly, it recognises that market provision and an emphasis on new supply alone is not going to meet the needs of hard-pressed renters and that a bespoke intervention is required instead. Given the scale of need, Shelter is calling on the government to commit to a ten-year programme of 500,000 Fair Rent Homes.

There are grounds to be confident that the government is committed to increasing overall supply, and that this ambition is sufficiently well-shared to weather political upheaval. But while the government has acknowledged that the current housing market is broken, it has not yet recognised the need for an alternative to reliance on a dysfunctional market. Now is the opportunity to ensure that the resolve to address the housing crisis reaches everyone and not just those who can afford to buy new homes.

2 Affordable Rent homes are let at rents of up to 80 per cent of local market rents.

Fair Rent Homes

- Genuinely affordable with controlled rents linked to local lower incomes
- Increased saving potential achieved through lower housing costs
- Stable tenancies offering 10 years' security of tenure
- Allocated to households unable to afford local market options
- Supported by government grant
- A vehicle for pioneering a new generation of land value capture

The need for change: hard-pressed renters have been forgotten

It is now widely acknowledged that the UK is experiencing a housing crisis, in large part as a product of its broken housing market. Supply has been inadequate for years and one particularly acute consequence of this has been a shift away from both homeownership and social housing towards the private rented sector. Over two million more households are renting privately compared to a decade ago and they now account for one in five of the population.[3]

Such large shifts in tenure are rare but were seen previously with the expansion of Right to Buy in the 1980s and the growth in homeownership during the 1950s. But while those social changes were generally welcomed by households, the explosion in the private rented sector has not brought demonstrable benefits to people and instead has hampered their living standards and aspirations, and in the worst cases driven the recent rise in homelessness.

Families with children have borne the brunt of this. A decade ago just one child in ten lived in the private rented sector; now one in four are growing up amid uncertain security and high rents.[4] Households under 45 are more likely to rent privately than own their own home or rent from a social landlord.[5]

Some of this shift has been driven by the declining affordability of homeownership: average house prices are now 8.5 times average annual earnings. Buying a home requires prohibitive levels of borrowing and a deposit far beyond what households can realistically expect to save. Consequently, the proportion of the population buying with a mortgage is lower than at any point in the last 35 years and those who are buying are increasingly doing so with family assistance.

But less well documented is the way in which social housing is also no longer providing a viable alternative for households unable to own their own home: in the mid-1980s nearly three-quarters of non-homeowners lived in a social rented home, and today the proportion has fallen to less than half. Years of undersupply mean that the waiting list for social housing stands at 1.2 million, despite greater powers for local authorities to prune their housing lists to realistic levels.

The result is that those let down by the market are not able to access the dwindling supply of alternatives and are still forced to turn to the same broken market for solutions, in the form of the private rented sector. The dramatic growth that has ensued has been poorly managed, as the extent to which it would replace other tenures in decline was not foreseen. As a result — despite recent welcome improvements — the policy and legislative framework for private renting, and mechanisms for enforcement, have been slow or unable to respond to disrepair, rising rents and chronic insecurity.

Average house prices are

8.5 times

average annual earnings

3 English Housing Survey 2015/16, headline report, 2017

4 Ibid

5 Ibid

Some households will be able to bear the cost of private rents and many will continue to move on to homeownership. But new analysis by Shelter finds that even the lowest rungs of the housing ladder are unaffordable to 1.6 million households who face a future of high rents, insecurity and often poor conditions.

Shelter's Living Home Standard, launched in 2016, was the first attempt to create a consensual definition of what it means to have a decent home. The public were asked to produce a definition, against which people could be assessed. Private renters were the least likely group to meet the Living Home Standard. This is because:

- Half of private renters could not afford their housing costs.
- A quarter did not feel they had a stable home
- Nearly three in ten did not meet the benchmark for decent conditions

This report looks at how to provide a better alternative for those renters bearing the brunt of the current housing crisis. It accepts that the housing market is broken and seeks a non-market alternative to meet the needs of lower income households for affordability and security.

Our focus extends beyond just the very poorest households to include hard-pressed renters who earn up to average incomes. To politicians they are those "just managing" – at Shelter we see all too often how housing failures can mean they struggle to manage at all. A sudden income shock or unexpected move can tip them from getting by into homelessness. They are not a niche concern: one in ten of the population is a hard-pressed renter struggling with their housing costs. Their average income is just £16,000.[6]

Hard-pressed renters are often forgotten in a debate polarised between those in the greatest need and the frustrations of priced-out first-time buyers. Ironically, while previous governments have endorsed radical interventions in the homeownership market through models such as Right to Buy and Help to Buy, the same dynamism and acceptance of market failures has not been offered in the rented market. This report sets out the ways in which renters are struggling because of a lack of affordable, secure options; the failure of current policy interventions to provide meaningful help; and the steps that would improve their living standards. It sets out the case for a new generation of homes at genuinely affordable rents. We called these homes Fair Rent Homes and they offer a stable and affordable alternative for hard-pressed renters.

Financial strain

For an increasing proportion of renters, high housing costs are putting an intolerable strain on family finances. Compared to other households, private renters are spending the highest proportion of their income on housing costs. For many, high rents are problematic but bearable, but some renters are showing real distress. Just under one in ten are currently in rent arrears or have been in the past 12 months, putting them at risk of eviction, homelessness and debt.[7]

6 Shelter analysis of Family Resources 2014/15

7 English Housing Survey 2015/16, headline report, 2017

This problem is not confined to economically inactive households. Nearly one in five private renters who are in work now need additional support from housing benefit.[8]

New analysis by Shelter reveals the full extent of financial distress among private renters. We estimate there are 1.3 million households in the private rented sector who cannot readily afford their housing and are falling below the minimum income standard after paying their rent.[9] This amounts to one in ten of the population. These households are not, as some may expect, the very poorest. The majority are headed by someone in employment and their typical household income is £16,000.[10] In London and the South their median income rises to £22,000, but higher costs mean they still fall below the minimum income standard. Their incomes compare unfavourably to average rents of £7,965 in England (rising to £15,600 in London).[11]

1.3 million

the number of private renting households that cannot afford a decent standard of living after paying the rent

700,000 of them fall into the group the government has identified as "just about managing" low and middle earners. Earnings boost this subgroup's average income to £22,000 but high housing costs still mean they struggle to reach the minimum income standard after paying the rent. Overall, they make up around 15% of the group who are "just about managing", who the government has identified as a priority.

High housing costs are reducing this group's financial resilience and putting them at risk of unexpected income shocks. 800,000 low and middle income renters are unable to save even £10 a month. These households are at risk of debt if they encounter unexpected costs. The prospect of saving a deposit for homeownership is a pipedream and for many even the costs of moving within the private rented sector will mean considerable financial strain.

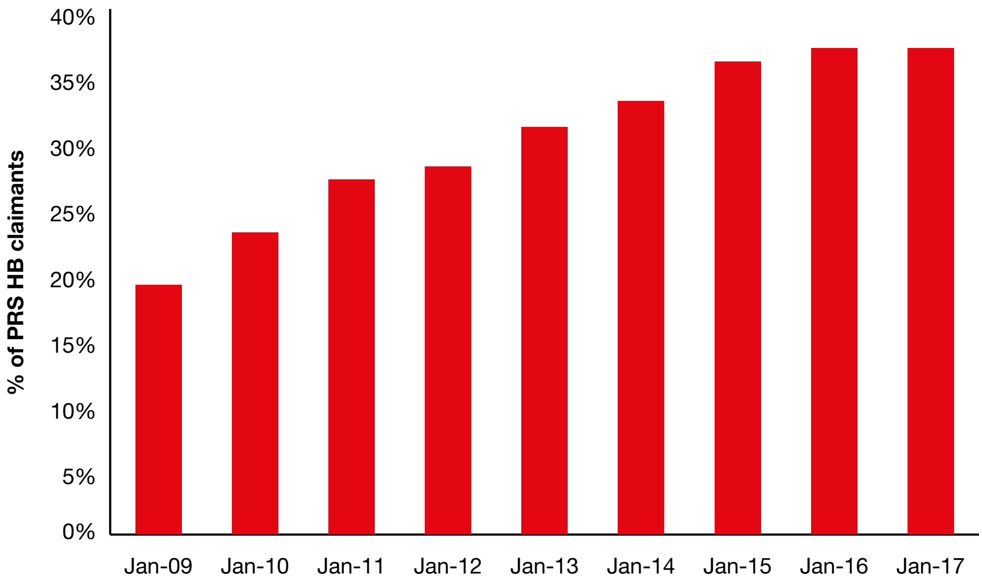
This adds to existing evidence of the unaffordable burden of market rents. When housing benefit isn't taken into account, private renting households pay over 40 per cent of their income on housing costs; the highest proportion of any tenure.[12] High housing costs have a particularly pronounced impact on poverty rates among private renters. A third of private renters are in poverty when housing costs are considered, compared to less than a quarter before hand; and they are more likely than other households to be dragged into poverty because of housing costs.[13]

29% **the proportion of private renters who find it difficult to pay their rent**

8 Ibid
9 Shelter analysis of Family Resources 2014/15
10 Shelter analysis of Family Resources 2014/15
11 DCLG, English Housing Survey 2015/16, headline report, 2017
12 English Housing Survey 2015/16, headline report, 2017
13 DWP, Households Below Average Income 2014/15, 2016

The number of private renters requiring financial support from housing benefit has risen sharply as the sector has grown. In 2007–08 only 7 per cent of working private renters received housing benefit. By 2014–15 this had increased to 18 per cent. (And these figures come from survey data and are therefore likely to underreport claimant rates). This is not a story of growing worklessness within the private rented sector but instead of declining affordability for working renters. This has implications for public expenditure: welfare reform and an emphasis on moving households into work can only do so much to reduce overall spending on housing benefit if high housing costs necessitate in-work support. Shelter has long argued that housing benefit has morphed from a personal safety net to a crutch propping up a broken market.[14]

Employment among private renters on housing benefit



Can private rents be made affordable for hard-pressed renters?

This report argues that a genuine alternative is needed to provide affordable homes for these households. A government that fails to accept the need for a sub-market alternative faces a limited number of choices to respond to the financial challenges of private renting.

- Allow affordability to worsen
- Intervene to directly reduce housing costs
- Intervene to increase incomes

Allowing affordability to worsen means accepting a continued rise in homelessness and the knock-on costs for local authorities. It would suppress families' living standards by directing an ever-greater proportion of their income to rent, with potential impacts on local economies. This laissez faire option has been the approach taken by recent governments.

Affordability could be improved by reductions in rents. Rents were regulated until the 1988 Housing Act but since then most rents have been set purely by market pressures. Hard rent caps for private landlords are unlikely to gain traction in the short to medium term: the evidence suggests that the risk of landlord flight and/

14 Shelter, Bricks or Benefits: How we can rebalance housing investment, 2012

or declining standards is too grave to enable such an experiment.[15] There is a stronger case for second generation rent controls, to curb rent increases for sitting tenants. While this would go some way towards easing unexpected cost pressures for longer term tenants (tenants would be less likely, for example, to find that a rent they could afford at the outset suddenly became unaffordable), it would not address the fundamental misalignment between rents and incomes.

Housing becomes more affordable if incomes rise and housing benefit can be used in a heavily targeted fashion to improve affordability by providing a cash subsidy for housing costs. This was the favoured tool of housing policy from the early 1970s to late 00s. Successive governments reduced investment for genuinely affordable housing and relied on subsidising individual renters so they could afford higher rents in both the social and private rented sectors. Such an approach may have been pragmatic when the country had sufficient supply of housing (as had become the case by the 1970s) and where intervention instead favoured individual choice and maximum targeting of subsidy. However, governments failed to reassess the reliance on housing benefit as demand outstripped supply.

This highlights the major drawback of relying on housing benefit as the primary tool to improve affordability: demand side subsidies do too little to encourage new supply and the imbalance this creates leads to escalating costs over time. Rising expenditure on housing benefit tends to be seen as a problem in itself, and not a symptom of underlying problems in the housing market. This is compounded by the fact that, being means-tested and having a counter-cyclical dimension, housing benefit is prone to increase during economic slowdowns. The increased cost is then extremely vulnerable to government pressures to reduce public expenditure. The flexible nature of housing benefit means governments find it easy to renege on a past assumption that housing benefit will underpin access to housing.

Britain is currently enduring its sixth successive year of housing benefit cuts, with the consequence that many housing benefit households are now struggling to find affordable accommodation.[16] Cost-cutting reforms to housing benefit have been at the expense of individual households' living standards and have exposed renters to an increased risk of homelessness. Housing providers have also borne the consequences of falling government support for housing benefit. The 2015 Summer Budget announced a four-year reduction in social housing rents. This was explicitly intended to reduce housing benefit expenditure but reversed a previous commitment to increase rents, which underpinned many housing associations' development plans.

In the long-term, housing benefit fails to achieve either increased supply or even improved affordability – given its inherent vulnerability to cutbacks. Its value as a safety net to smooth out income shocks should not be understated, but policy should aim to move away from relying on it to provide a housing solution for low income households.

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15 Clarke A et al, The Effects of Rent Controls on Supply and Markets, Cambridge Centre for Housing and Planning Research, 2015

16 Shelter, Shut Out: Households put at risk of homelessness by the housing benefit freeze, 2017

Instability

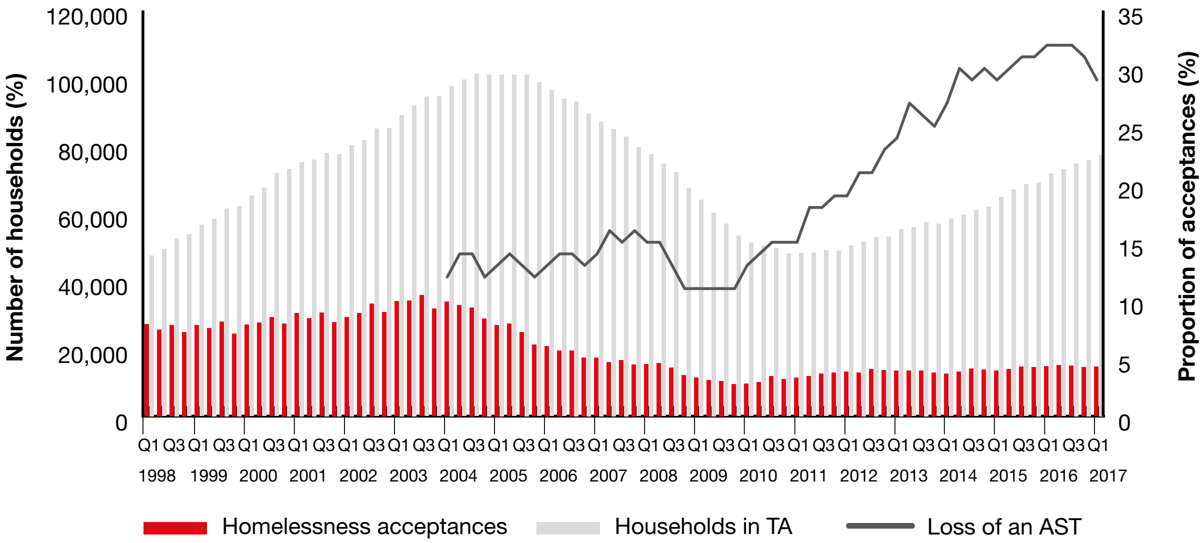
The private rented sector generally does not provide a stable home to settle, put down roots and raise a family in. Assured shorthold tenancies only offer a legal minimum of six months' security of tenure, after which households can be evicted with two months' notice. While this can be tolerable or even preferable for some households, it means that households who want a long-term home are not able to enjoy any certainty.

Private renting is more than a transitional tenure for people establishing careers or moving between long-term homes. Instead half of private renters have lived in the sector for five years or more.[17] Two in five private renters do not now ever expect to be able to buy — the majority citing affordability constraints — yet there is no stable policy offer for households planning a future in the private rented sector and no certainty of attaining a more secure social tenancy.[18]

69% **the proportion of renters who say high house prices are why they will never be able to buy**

The rapid growth in households being housed on short-term tenancies has contributed to the steep rise in homelessness since 2010. The loss of an assured shorthold tenancy is now the single leading trigger of homelessness. One in three households accepted as statutorily homeless by local authorities in 2015/16 gave the end of a tenancy as the reason for the loss of their last settled home. This compares to 15% five years previously.[19] In London, where affordability problems are most acute, two in five cases of homelessness were triggered by the end of a tenancy.

Trends in homelessness



Source: DCLG live tables 770 and 774 on homelessness

17 English Housing Survey 2015/16, headline report, 2017

18 English Housing Survey 2015/16, future homeowners report, 2017

19 DCLG, Live tables on homelessness, July to September 2016.

Research by Shelter found that this was due to a lack of affordable options for households in the private rented sector, particularly for those who receive additional support from housing benefit. Tenants are not losing tenancies due to their own actions, but when a tenancy comes to an end they are increasingly unable to find an alternative within their budget and have no choice but to present themselves to the local authority for help with re-housing. Additionally, qualitative interviews found that official statistics may under count the impact of instability in the private rented sector. Many households turn first to informal safety nets and only resort to council help once these avenues have been exhausted. In these cases, the cause of homelessness is recorded as 'family or friends no longer able to accommodate' even though the primary driver is the lack of affordable housing options in any tenure.[20]

Of course, not all incidences of repeated moves will result in homelessness, but such insecurity is still highly detrimental to families' financial stability and wellbeing. Just over a quarter of renters with children have moved three or more times in the past five years.[21] This can cause financial strain for the household as well as the knock-on effects to children's education and well-being. And all such families will live against the constant backdrop of insecurity and an uncertain future. Combined with plans to reduce security in the social rented sector, we have arrived at the position where only those able to afford homeownership will be able to plan long-term.

Improving stability within the private rented sector

Government can exercise a great deal of control over security of tenure for private tenants by legislating to change the legal framework, and can also use incentives to encourage longer tenancies.

The current legislative framework is now three decades old and is very much a product of its time. It was a response to a long-term decline in the size of the private rented sector and a lack of investment by existing or potential landlords. The government of the day introduced Assured Shorthold Tenancies in a concerted attempt to make the tenure more appealing to potential landlords by increasing their rights vis-à-vis tenants. The Housing Act 1988 replaced a legal framework that gave private tenants indefinite security of tenure and protected sitting tenants against rent rises. Reform occurred amid a background of rising homeownership which gave false confidence that people's long-term housing needs would be met by owner occupation.

The legislation has since remained unchanged for nearly 30 years. This is despite the dramatic growth in the size of the sector, decline in owner-occupation and changing composition of private renters.

New legislation has the potential to directly improve private renters' stability and recent government moves in this area are welcome. However, depending on the legal framework adopted, they would still be vulnerable to the impact of individual landlords wanting to sell properties or live in them themselves. Stronger security of tenure also has the potential to improve conditions in the sector, by increasing tenants' stake in their property and removing concerns about 'revenge evictions', where landlords use insecurity to penalise tenants who complain about disrepair. However, the experience pre-1988 showed that landlords can be reluctant or unable to invest in properties if security of tenure combines with limitations on rents.

20 Shelter, Green Book 50 years on: the reality of homelessness for families today, 2016

21 Shelter, The need for stable renting in England, 2016

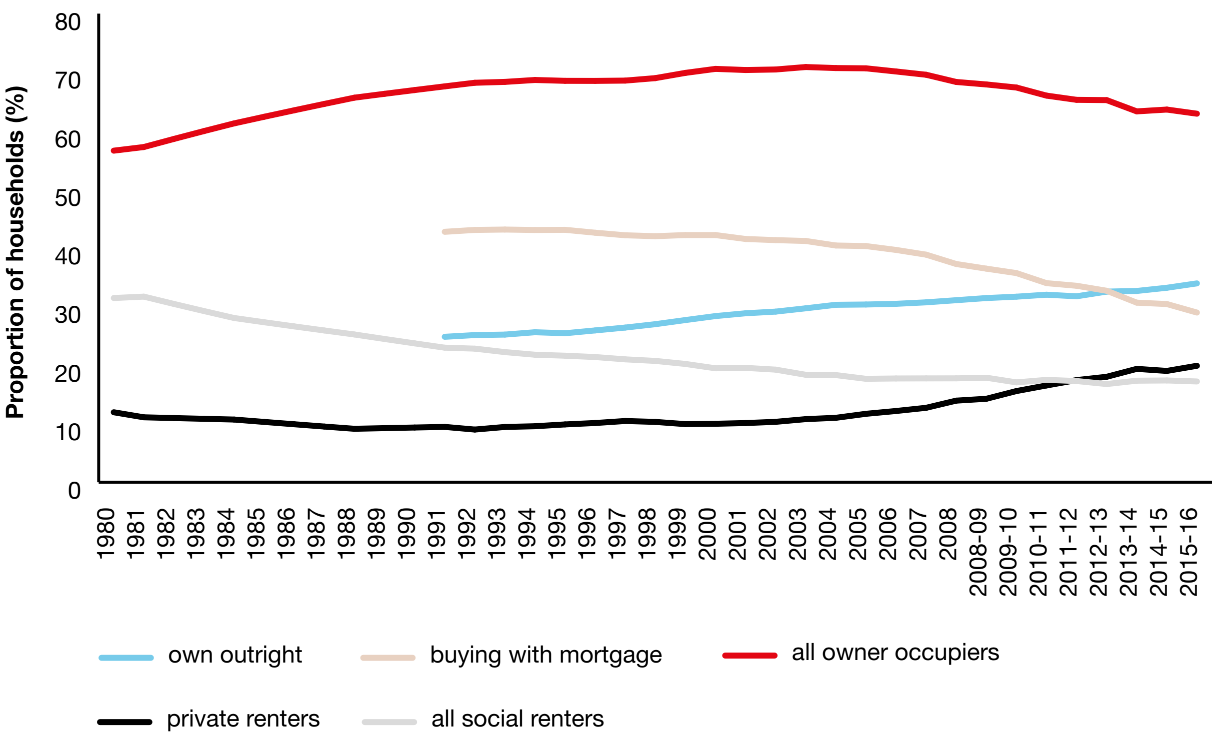
What help has been offered to hard-pressed renters?

Few can dispute the twin pressures of cost and instability. Politicians are increasingly aware that the current housing market is not delivering for everyone. However, government efforts to date have largely focused on helping more affluent private renters move into homeownership. This can only have a limited impact on hard-pressed renters. We set out below the financial barriers facing many lower income renters and why we believe this route has limited potential. Households are not unrealistic about their finances: 1.8 million private renting households – two in five of all private renters – do not expect to ever buy their own home.[22]

Barriers to homeownership

The decline in homeownership is not a recent phenomenon triggered by the financial crisis. Overall home ownership peaked in the early 00s and has been in decline ever since. The headline homeownership rate is inflated by rising levels of outright ownership as homeowners age. Mortgaged homeownership – which provides a better indication of people's ability to buy into the market and the affordability of housing versus incomes - has been in decline for far longer, having peaked in the early 90s.[23]

Changes in tenure



Source: English housing survey 2015/16

22 Shelter, The need for stable renting in England, 2016

23 English Housing Survey 2015/16, headline report, 2017

Falling homeownership has been driven primarily by high house prices, which have risen disproportionately to incomes. Homeownership remains unaffordable across much of the country. A household on an income of £16,000, as is typical of our hard-pressed renters, would be able to borrow a maximum of £72,000 and would likely be restricted to considerably less when unearned income such as tax credits and child benefit is taken into account. This compares to the average UK house price of £220,000.

Recent governments have created numerous schemes, most notably Starter Homes and Help to Buy, designed to make homeownership more accessible, as well as backing Shared Ownership. But these are inaccessible to many low to middle income renters.

- The Lifetime ISA pays a bonus of 25% on savings, up to a maximum of £4,000. However, as seen above, half of low to middle income renters are unable to save even £10 a month.
- The Help to Buy equity loan scheme benefits households with a small deposit. However, analysis by Shelter found that new build Help to Buy homes were unaffordable to average working renting households in 83% of England.
- Average earning households cannot afford Starter Homes in 58% of local authority areas. Those earning the National Living Wage are priced out in 98% of the country.

Overall, 1.6 million private renting households below the age of 55 do not earn enough to access even the lowest rung of the homeownership ladder: a shared ownership property with a 25 per cent share.[24] These households are concentrated in areas with the highest house prices: 380,000 households are in London and 220,000 in the south east. However, the gap between low earnings and buoyant house prices mean no area is immune: 160,000 private renters in the North West are priced out, as are 130,000 in the West Midlands.

The majority of these are working households and almost a third have at least one person working full time. Employment is higher in high pressure areas: in London and the South East, two-thirds of renting households that cannot afford shared ownership are headed by someone employed, compared to 40% in Northern regions.

Hard-pressed renters face the dual-barrier of low earnings, capping their ability to borrow, and a lack of savings. Seven in ten households that cannot afford shared ownership do not have any savings. This is in part due to the burden of high rents on their budgets. Half of hard-pressed renters say they cannot even afford to save £10 per month.[25]

50%

of hard-pressed renters cannot afford to save £10 per month

Against these barriers, it is unsurprising that now two-thirds of mortgaged owner-occupiers are higher income households.[26] It is unlikely that England will ever return to rapidly growing homeownership, especially among low income households, and the 1980s and 90s may well turn out to be a historic anomaly. Previous periods of strong expansion have been characterised

24 Shelter analysis of Family Resources 2014/15

25 Shelter analysis of Family Resources 2014/15

26 DCLG, English Housing Survey; Headline report 2015/16, 2017

by a rapid increase in supply (the 1930s), buoyant income growth relative to house price inflation (1950s and 60s), loosening of credit (1960s and 70s) and provision of generous and well-targeted state support (1980s). The government does not now have any such genies to unleash.

Even Right to Buy, which produced an additional one million homeowners in 1980s, cannot expect to repeat this feat, given the rise in house prices relative to incomes (which makes buying problematic even with a generous discount) and falling incomes among social housing tenants (which means fewer people are in a position to take on mortgage debt).

In the short to medium term, we cannot expect a return to high levels of owner occupation – indeed England is now below average for European levels of homeownership. Government cannot expect to ease the pressures on hard-pressed renters by moving them into owner occupation (unless they start giving homes away). We face at least a generation where lower income households will expect to rent. An alternative is needed that doesn't focus solely on immediate access to homeownership and our Fair Rent Homes proposal provides a blue print for an ambitious government.

Limited potential for private rented reform

Hard-pressed renters are overdue a meaningful intervention by government to provide stable and affordable homes. There has been a lack of attention paid to declining affordability. Indeed, for households on the lowest incomes, government policy has deliberately worsened affordability pressures by cutting housing benefit. Efforts to improve security of tenure have tended to will the ends without the means. And while there have been legal reforms and investment to improve conditions, the Grenfell fire was a stark reminder of the inadequacies of current housing law. More fundamentally, there has been little debate about whether growth of the private rented sector is something to further support or the direction it should take.

1 in 4 families
with children rent from a private landlord

An exploration of the inadequacies of the current policy response and reliance on private renting underscores the need for a bolder new approach in the form of Fair Rent Homes.

Past growth in the private rented sector has been driven by amateur investors, with the fortunate side effect that it's met the immediate needs of a growing number of households during an era of inadequate new supply and declining alternatives. Such an approach is vulnerable to policy changes that discourage buy to let investment (as were pursued by the Cameron government) and economic conditions that deter expansion. Nearly one in five households are now reliant on the vagaries and finances of other individuals to provide their housing.

The ad hoc, amateur nature of the sector also creates its own challenges. The majority of landlords are individual amateur investors with just one or two properties. They do not create new supply but use finance to bring existing stock into the private rented sector. Although the buy to let market will have some stimulus effect on developers, it has not shown itself to be equipped to bring about the increase in supply that England's housing stock requires. Landlords are motivated by their own financial stability, often saving for retirement, and are unlikely to make the kind of long-term business decisions that social landlords can, or have the same ability to bear risk. Their future in the sector is uncertain and there are no guarantees that they would sell to another landlord if they choose to divest themselves of their portfolios.

The May government has shown an interest in supporting the Build to Rent sector, which has the potential to use institutional investment and professional management to provide higher quality accommodation. However, the sector is currently very small and growth is limited; projected at up to 15,000 new homes per annum.[27] Rents are high as developments cater to the top end of the market. Taking into account developers' attitudes to security of tenure, we should also caution against assuming that the sector can meet the needs of hard-pressed renters[28].

Why social housing isn't providing an alternative

Many may be surprised that social housing isn't already playing a larger role in meeting the needs of people who cannot afford private rents. Throughout the past century, social housing has been a key means of ensuring people have homes in which they can thrive. At no point has the market been able to deliver good conditions, affordability, *and* security for all, particularly those on the lowest incomes. That is apparent now more than ever, with even households on higher incomes excluded from the market and the target of government intervention.

There has never been one singled defined role for social housing other than it being an alternative option to private market homes. It has evolved over time to reflect changing needs and context. Initially, council homes provided a good quality alternative to private rented slums, and as such were more expensive. After the Second World War, new building helped contribute to the overall level of supply needed. Rent rebate schemes also made social housing more affordable for people on lower incomes, but going into the middle of the century, social housing deliberately catered to a broad demographic. By 1981, 32 per cent of households lived in social housing. The 1980s saw security of tenure strengthened for social tenants, providing long-term certainty for households who couldn't join the growing numbers of owner-occupiers and the stability they enjoyed.

In this way, social housing has in the past responded to the challenges of the day; be they poor conditions, acute shortages, unaffordable housing costs or lack of security. It has offered both a tailored solution to those let down by the market and helped contribute to the overall levels of new supply needed. But it is striking that there is not now a consensus that social housing can provide a central part of

27 DCLG, Planning and affordable housing for build to rent: summary of consultation responses, 2017

28 A majority (53 per cent) of developers responding to the government's 2017 consultation were opposed to mandatory minimum tenancy lengths. Nearly two-thirds (64 per cent) were opposed to three-year minimum tenancies.

the response to the housing crisis as seen in 2017, even though the lack of supply and affordability constraints are well-documented.

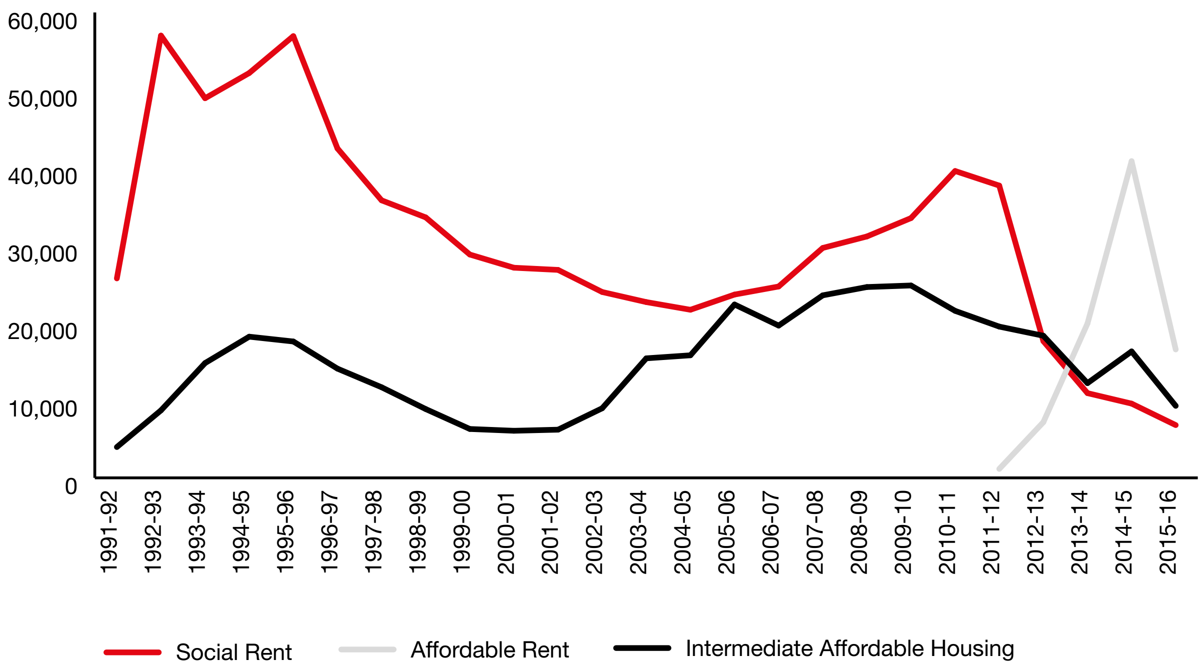
Indeed, social housing is often problematized as a symptom of the crisis rather than a solution to the challenges faced by hard-pressed renters. Successive governments have focused on reforming social housing for a diminishing pool of people, rather than expanding the sector to cater for growing need.

After significant reforms under the Coalition and Cameron governments, there are now limited but welcome signs of a softening in political attitudes towards social housing. But, there is as yet insufficient prospect of it providing a sizeable part of the response to the broken housing market, nor meeting the needs of hard-pressed renters on the scale needed.

Insufficient supply of social housing

England's current provision of social housing, particularly in London and the south-east, is insufficient to meet potential demand from hard-pressed renters, as well as other groups who may seek social housing. There are 1.2 million households on the waiting list for social housing. Waiting lists grew steadily throughout the 00s, rising from 1 million in 1997 to 1.7 million when the financial crisis hit in 2007.[29] This occurred amid a backdrop of rising house prices and crucially failure to invest in new supply – continuing the trend set by previous governments.

Additional affordable housing supply



Source: DCLG live table 1000: additional affordable homes provided

29 DCLG live tables 600, number of households on local authority waiting lists.

This was compounded under the Coalition government. Capital subsidy for new affordable housing was cut by 60 per cent in the first year. Total investment up to 2014–15 was reduced to £4.5 billion, down from £8.4 billion for the previous spending review period.

The loss of capital grants was intended to be partially compensated for by higher rents, with housing associations encouraged to let properties at up to 80 per cent of market rents to support increased borrowing for new supply.

However, other reforms created challenges and uncertainty for housing associations, which undermined confidence in new borrowing:

- Voluntary Right to Buy – which will force housing associations to sell off stock to sitting tenants
- 1% rent reduction – which reduced rental income up to 2020
- Welfare reform – which increased the risk of rent arrears for new and existing tenants

Meanwhile, councils who wished to build social housing were hampered by caps on the amount they could borrow for new supply. The Housing and Planning Act introduced proposals for the forced sale of higher value social homes, which deterred local authorities from planning new supply in high pressure markets. Increased discounts for Right to Buy homes further led to a loss of stock.

Combined, there was less direct investment available for social landlords and the multitude of reforms created an environment which deterred against growth.

There has been some respite for social housing since the Brexit referendum and the arrival of the May government. The current government has pulled back on some of the more damaging reforms it inherited: total grants available for registered social providers have increased; section 106 agreements will no longer be heavily skewed towards Starter Homes at the expense of social housing; the sale of higher value council homes has been delayed, bringing respite to high demand areas; and proposals to charge higher income tenants market rents have been abandoned. Voluntary Right to Buy for housing association tenants has also been scaled back, reducing the risk of immediate stock loss. The manifesto commitment to support local authorities to build new council houses, funded by land value capture. And even more promisingly, in October 2017 the government announced an additional £2bn for affordable housing up until 2021, with funding once again available for social rent.

These are extremely welcome modifications and suggest that the current government is more receptive to the need to increase supply and less dogmatically attached to homeownership. But they stem the decline of social housing rather than give real cause for optimism for the future. The scale of unmet need is huge and no one realistically believes that a new generation of social rented homes to meet the needs of hard-pressed renters is on the horizon. This leaves a gap which can be filled by Fair Rent Homes.

Restricted access to social housing

For the 1.2 million households on official waiting lists, their prospects of receiving a social tenancy are poor. This is especially true for our group of hard-pressed renters who, while struggling with high rents, do not necessarily fall into a priority group.

Since the Housing (Homeless Persons) Act 1977 gave councils' housing departments legal responsibility for rehousing homeless people, social housing has been directed to those in the greatest need. Legally, council allocation schemes must give certain household types “reasonable preference” for social housing, meaning allocation policies are skewed towards homeless households, those in unsanitary or overcrowded conditions, those who need to move for welfare or medical grounds or those who need to live near specialist medical or educational facilities.

Reasonable preference is not a guarantee of obtaining social housing, nor even of being in the highest priority, but it means that overall allocation schemes will — for very good reasons — give preference to these groups above other households. The picture since 2012 has become more mixed, with attempts to move away from a needs based approach, while still officially maintaining the overall reasonable preference categories. Since 2012, local authorities have also been legally required to give additional preference to ex-members of the armed forces. They are also now encouraged to support people in employment or making a voluntary contribution to the community, although not all local authorities have amended their policies accordingly.

Against this backdrop, the proportion of lettings going to households in even the greatest need has shifted. In 2008-09, over a quarter of lettings in the previous three years went to households previously accepted as homeless. By 2015-16 this had fallen to 22 per cent.[30]

Under supply means even those groups who are prioritised for social housing may face long waits. Of current social housing tenants, nearly three in ten had waited more than a year for their tenancy and 12 per cent waited over three years.[31] Other households face years on the waiting list with little realistic prospect of gaining an affordable, secure tenancy. Of all people currently on a waiting list, over two in five have been on it for more than three years.[32]

There is a real need for government to invest in new social housing supply. However, given the backlog of unmet need and rising acute need, we are realistic that even a big uptick in supply would have limited ability to help low to average income renters. It is for this reason that Shelter believes a low earners’ intermediate product such as Fair Rent Homes should be delivered alongside an expansion of social rent.

Over
2 in 5 people
on the social housing waiting list have been on it for more than three years

Marginalisation of social housing

There is a second reason why it is preferable to offer an alternative to traditional social rent for hard-pressed renters.

From the late 1970s to 2000s, social housing increasingly became part of the ‘safety net’ of welfare provision for the most in need. After the 1977 Act, allocation of new lettings became heavily skewed towards formerly homeless households. Shortly

30 DCLG, English Housing Survey 2015-16, social rented sector report, 2017

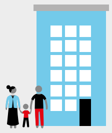
31 DCLG, English Housing Survey 2015-16, social rented sector report, 2017

32 Ibid

after, more affluent tenants were able to take advantage of Right to Buy, and did so in huge numbers. Social mobility and relatively affordable house prices also enabled many households to move straight to owner occupation and not make their home in the social rented sector. Although many of these trends were welcomed both politically and by individuals, they contributed to the residualisation of social rent.

In political discourse and public imagination, social housing has become enmeshed in a broader debate about welfare. Research by the Fabians demonstrates that most people see social housing as irrelevant to their own needs.[33] They instead see it as social security for other people and not relevant to their own requirements and aspirations.

28% **of people would be happy if they or their family lived in social housing**



When asked what word they most associated with social housing, half said "benefits". Unsurprisingly just 28 per cent of people said they would be happy if they or their family lived in social housing – including 38 per cent of private renters.

Shelter replicated this research in 2017 to explore whether attitudes had shifted as the housing crisis worsened. Four in ten respondents still associated social housing with "benefits" although 43 per cent also associated it with affordability. There had been no shift in the proportion of people who said they would be happy if they or their family were living in social housing –and enthusiasm had dipped among private renters to only 35 per cent.[34]

Negative attitudes towards welfare in general are well documented. While the public are supportive of safety nets in principle, they often are negative towards those receiving help; deeply hostile to suspicions of fraudulent claims; and tend to distinguish between "deserving" and "undeserving" recipients.[35]

Attitudes towards social housing show many of these same complexities, reinforcing the sense that the public has categorised social housing as part of social security rather than housing policy. The British Social Attitudes survey reveals the negative attitudes many people across all tenures have towards social housing: the most common disadvantage of social housing compared to private renting is perceived to be anti-social behaviour on estates.[36] The Fabians' research also shows that the public believe people living in social housing are stigmatised.[37] The Grenfell fire was a reminder of how these attitudes can manifest themselves and the impact on residents: residents spoke of feeling ignored by their social landlord and local politicians for years preceding the fire. The public as a whole are strongly supportive of new social housing being built, but unlike investment in the NHS or education service, there is little sense that this investment could provide a valuable service to a broad section of society. It is hard to see how the marginalisation of the tenure can be reversed while it continues to cater for a narrow section of society.

33 Fabians, Silent Majority, 2014
34 Shelter/You Gov, sample size 1439 English adults, 15-16th August 2017
35 Shelter, Understanding Attitudes to Welfare: summary of evidence, 2017
36 Nat Cen, British Social Attitudes 28, 2012
37 Fabians, Silent Majority, 2014

In theory, a vast expansion of social housing so that a much greater range of people could live there might be the best way to create more mixed communities and reinstate social housing as a mainstream option for non-homeowners. This would require a significant increase in stock to avoid simply squeezing out those in the most acute need from new lettings. But given the lack of political and public support for this, it's unlikely to happen.

Grenfell was a reminder that social tenants have a right to demand more

A move towards universalism without a vast increase in supply would create other problems. No one wants to see people most in need left without a suitable home and there will always be a need to debate how to target investment efficiently. Plus, the public have deeply held beliefs that access to social homes should be restricted to those who are in genuine need – such as homeless people, people with disabilities and people who cannot afford private rents.[38] Key workers who may well be struggling but are not the poorest of the poor are seen as least deserving.[39] As such there is a risk that expanded allocations policies for social housing in the absence of a vast increase in supply are met with a public backlash for misdirecting a scarce safety net away from those who need it most.

Shelter is not arguing that the social housing sector be left to a programme of managed decline. Grenfell was a reminder that social tenants have a right to demand more. Separate programmes of work are required to identify the problems within the current system and to push for the improvements residents deserve. However, this will take time and does not override the pressing need to provide an alternative for renters struggling in the private rented sector. A new programme of Fair Rent Homes must be developed alongside a fresh debate about the future of social housing. Combined, they can provide an alternative for the wide swathe of the population failed by market offers.

38 Shelter/You Gov, sample size 1451 English adults, 6th-7th August 2017.

39 Ibid and Nat Cen, British Social Attitudes 28, 2012

A fair offer for hard-pressed renters

We are optimistic that the next few years will continue to see politicians treat housing as a priority. The government has acknowledged the challenge of inadequate supply and is increasingly willing to explore the bold action necessary to end the reliance on inefficient speculative house building. But there has been too little emphasis on building homes that people can afford, particularly those who are ill-served by current market-based offers.

Government housing policy needs to be more assertive in ensuring that the right homes are built to respond to the challenges of today and to be prepared to intervene when the market is unable or unwilling to deliver these. Attempts to revive homeownership may have dovetailed with public aspiration but achieved marginal gains in reality. A better offer is desperately needed for England's 1.3 million hard-pressed renters who are facing a future of expensive, poor quality and insecure housing.

Shelter believes a new approach is needed for the growing ranks of hard-pressed renters. These are increasingly the households we see in our services and we know only too well that an unexpected eviction notice or rent rise can push them from 'just managing' to homeless. They will not be helped by homeownership models and we are also realistic about the prospect of social housing to offer them a route out. Instead we are calling for the government to commit to a new approach, specifically targeted at those on low to middle incomes.

The government should commit to building a new generation of Fair Rent Homes that can provide hard-pressed renters with stable homes and genuinely affordable rents that reflect local labour markets. These would sit alongside an expansion of social rent homes in recognition of the levels of supply needed.

For some this will be a springboard to ownership, including shared ownership. Genuinely affordable rents will increase people's ability to save, giving them a meaningful chance of raising a deposit. Others will make their home in the tenure for the long-term.

Improved affordability

A new intermediate offer needs to address the objective need for rents that are affordable for households currently struggling with high private rents. Rent setting should avoid the recent pitfalls in the social rented sector, which have undermined affordability. One notable finding of the Living Home Standard was that the proportion of council and housing association tenants failing to meet the benchmark for affordability was on a par with the private rented sector. This partly reflects low incomes, but has also been exacerbated by above-inflation rent rises between 2002 and 2015 and the move towards Affordable Rents after 2011.

It would be a missed opportunity to improve affordability if Fair Rent Homes continued the approach of linking rents to a broken housing market. Shelter analysis shows that market-linked rents are simply unaffordable for many households on lower incomes, particularly in high pressure markets. The problem is most acute for families with children, who require larger properties.

Two-thirds of the country is unaffordable to families requiring a two-bedroom property if rents are set at 80% of market rents. Affordable Rent is unaffordable to families in the vast majority of areas in the south.[40]

The 'living rent' model provides a mechanism to ensure that rents are affordable for hard-pressed renters. Just as the living wage is calculated to acknowledge living costs, living rents are calculated in line with local earnings. The concept has attracted growing interest from across the political spectrum, including from the Joseph Rowntree Foundation, the Conservative think tank Renewal, and the Mayor of London.

Shelter proposes a similar model that is genuinely affordable for low to average income renters. Rents would be set in line with local incomes for this group. Hard-pressed renters are not the average earners catered for by many existing intermediate products: their incomes are lower, averaging £16,000 nationally. As such, we propose that Fair Rents are benchmarked to the 30th percentile of local incomes.

Our modelling, using data from the HCA, the Valuation Office Agency, the Family Resources Survey (FRS) and the Annual Survey of Household Earnings (ASHE), finds that two-bed rents set at a third of regional-level gross, household incomes (excluding housing benefit) would be the following per week:

Region	Modelled Rent
North East	£109
North West	£105
Yorkshire and the Humber	£115
West Midlands	£114
East Midlands	£124
East of England	£132
London	£135
South East	£140
South West	£126

In high cost areas this would produce significantly improved affordability compared to both private rents and the Affordable Rent model. In other areas there would be relatively little difference, reflecting the variation in housing markets across the country.

40 Shelter analysis of Private rental market summary statistics, England, 2014-15, Valuation Office Agency

Region	Modelled Rent	As % of Affordable Rents	As % of Private Rent
North East	£109	121%	97%
North West	£105	106%	82%
Yorkshire and the Humber	£115	124%	94%
West Midlands	£114	108%	84%
East Midlands	£124	124%	97%
East of England	£132	100%	73%
London	£135	69%	34%
South East	£140	95%	67%
South West	£126	110%	77%

On this basis, provision of new Fair Rent Homes should be prioritised for London, the South East and the East of England. There is significant demand among hard-pressed renters in these areas for a genuinely affordable alternative to out of control market rents. Every London borough would see rents lower than current levels of Affordable Rent, and the rents would also be significantly lower than the GLA's benchmark London Affordable Rents, our analysis finds. The South East and large parts of the East of England would also witness rents on average below 75 per cent of local private rents.

Improved security

Fair Rent Homes need to recognise people's broader need for a stable home and not just address affordability pressures. Regrettably, the incomes of hard-pressed renters mean their prospects of moving into homeownership, even via shared ownership, from a Fair Rent Home are poor for the short to medium term and some realistically will never be able to do so. These households need a product that recognises their need for a stable long-term rented option. It cannot be acceptable that only people able to access homeownership can enjoy certainty over their future and a sense of ownership in their community.

Families cannot be expected to plan and flourish from the basis of a short-term tenancy. Tenancies for Fair Rent Homes must be a minimum of ten years. This will give households the security they can and should expect. It also differentiates Fair Rent Homes from social housing, which will increasingly be let on five-year tenancies.

10 years

the minimum tenancy for a Fair Rent Home

A decade-long tenancy creates a realistic period in which someone can expect to save and increase their earnings and this may prompt a move into owner occupation at the end of the tenancy term. The finance model for Fair Rent Homes assumes they will be sub-market in perpetuity and this will allow households who would struggle if they returned to the private rented sector to renew their tenancies.

Supporting aspiration

Ability to buy

Lower rents will ease pressure on household finances and some households may be able to use this to save for a deposit. The potential savings in London and the South East are significant for a household moving from a private rent to a Fair Rent and for some households this will create significant capacity to save. This could be used as a deposit for a shared ownership property or a home on the open market. It would also be up to individual providers whether their debts and the cost of replacing homes locally allowed them to sell a Fair Rent Home at full market value to a sitting tenant.

Allocations

Fair Rent Homes will need to serve a diverse group of hard-pressed renters, united by their need for an affordable alternative to the private rented sector. Allocating any scarce resource raises difficult questions about who should benefit first and Shelter is acutely aware of the challenges that will be faced by those left in the private rented sector or in temporary accommodation. However, we caution against a purely needs based approach to allocating Fair Rent Homes. The primary criteria for entry should be the inability to find an alternative home locally. An income cap will be required to ensure that lettings do not go towards households who could afford to rent or buy privately and this should be set considerably below the income thresholds for other intermediate affordable housing products. It would be reasonable for providers to recognise local connection, although mobility for work should be supported.

Beyond this it would be advantageous not to have any further system for prioritising households. Moving into a Fair Rent Home should not feel like receiving welfare or charity. It should be a choice that improves people's living standard by reducing their outgoings to an affordable level. Homes should not be allocated through a process that feels stigmatising. Allocation procedures should be drawn up to ensure that there are no real or perceived perverse incentives to change a household's circumstances for the worse to access accommodation. Priority from the broad pool of eligible households could be decided according to length of time spent waiting, or even a lottery system.

How can this be delivered?

Funding Fair Rent Homes

Initial subsidy will be required in order to reduce rents to affordable levels. The total cost of providing a first generation of 500,000 Fair Rent Homes will vary based on location and land costs but for illustrative purposes is estimated to be £85bn. We calculate an average build cost of £170,000 per home (including land, contractor fees and on costs[41]), which is inflated by a focus on predominantly high value areas such as London, the South East, and the East of England, as this is where affordability pressures are most acute.[42]

Provider finance

We estimate that affordable housing providers (such as councils or housing associations) would be able to borrow £32bn against their future rental revenue stream, over a 30-year horizon, in order to pay for land and build homes (38% of total construction and land cost).[43] This leaves £53bn to be found from other sources.

The revenue stream from rental income alone will give social housing providers a valuable, revenue-generating asset well beyond the 30-year horizon for long-term finance. And this is before value from potential future disposals is taken into account if providers sell stock, either to sitting tenants or other buyers.

Therefore, it has conservatively been estimated that providers will find 28% of the total build cost (£24bn) from other sources of surplus – this could be from open market sale, existent social housing rental revenues or other streams. This would lead providers to cover around 66 per cent of construction and land costs for these 500,000 homes, a percentage which clearly will vary dependent on area, provider type and providers financial position.

This leaves the value of £29bn to be found, which translates to around £2.9bn per year over ten years, or £58,000 per home. There are various ways that this funding could be provided, from direct government grant to public land, and smarter forms of land value capture as advocated by Shelter's vision for a New Civic Housebuilding.

In practice, multiple sources of grant, borrowing and non-cash subsidies support affordable housing supply, with complex interactions between them. The amount of affordable homes built, their tenure and the amount of subsidy required is highly sensitive to government funding levels, but also to changes in overall housing supply, both of which are in turn influenced by government policy. It is therefore not possible to precisely forecast the exact levels of each of these sources that will be required: each Comprehensive Spending Review, and each programme delivered by the HCA, can at best make broad predictions as to what the final outturn of each round will be.

41 On costs are assumed to be 8% of the build cost outside of London and the South East, and 12% within it, in order to take into account of the extra issues around remediation experienced particularly within London.

42 Build costs were estimated using HCA, SPONS, BCIS and Savills data. Land costs were estimated using VOA, Capital Economics, Greater London Authority, Savills data.

43 Using the current average cost of finance realised by housing associations according to the latest HCA Global Accounts publication (2016 - 4.9%) as a discount factor

Below we identify some potential directions for future policy and spending decisions, to demonstrate that while ambitious, the goal of 500,000 Fair Rent Homes is politically and fiscally achievable.

Grant

Direct government support for new building will be required to meet the level of demand for Fair Rent Homes. The funding calculations above demonstrate that with land and build costs, providers cannot deliver homes at genuinely affordable levels without some additional subsidy. Grant funding is a tried and tested route to both increase supply and produce homes that are affordable for low earners. Attempts to squeeze grant, as seen with the Affordable Rent model, risk increasing rents beyond affordable levels; saving on direct investment while increasing expenditure on housing benefit.

Our modelling results in a funding requirement of £58,000 per home, on average. If this was to be met entirely from grant it would be well below the average grant rates currently assumed for social housing, as would be expected given that the rental income from Fair Rent Homes is higher than from social rents. This would cost the government a maximum £29 billion in total grant over the five years.

So even this most ambitious version of a funding model is perfectly deliverable – should the government choose to do so. But there are good grounds to suppose that Fair Rent Homes would need a lower grant rate than this.

Section 106

As a non-cash benefit it is notoriously hard to quantify exactly how much cross-subsidy Section 106 agreements provide. But no-one disputes that Section 106 has become an important part of the funding mix: JRF recently found that between 30 per cent and 50 per cent of all affordable homes built over the 12 years to 2016[44] were supported by S106 agreements. The most recent attempt to put a cash value on S106 was in 2012 when the University of Reading led a study for DCLG. This estimated the total value of affordable housing contributions under Section 106 agreements at £3.7 billion for 2011/12 – below a peak of £4.9 billion for 2007/08, but well above the first such estimate of £1.9 billion in 2003/04[45]. Of this, £1 billon was direct payments for services such as education and transport, leaving a substantial sum for affordable housing.

Of course, Section 106 relies on private developers taking forward housing schemes – which is why its overall value fell with total housing supply after the financial crisis. To estimate the potential value that could be sourced from Section 106 we therefore have to make assumptions about overall housebuilding levels.

Finally, Section 106 is highly sensitive to changes in government policy. As JRF's study makes clear, recent changes to planning policy like the inclusion of the viability clause in the National Planning Policy Framework[46] have reduced the amount of affordable housing achieved through S106. In estimating its potential future yield we also have to make assumptions about the policy context.

44 http://be.brookes.ac.uk/research/spg/resources/jrfupdate-planning-obligations-and-affordable-housing-report-21032017.pdf

45 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/314066/Section_106_Planning_Obligations_in_England_2011-12_-_Report_of_study.pdf

46 National Planning Policy Framework, Paragraph 173

Total housing supply

Government has repeatedly committed to significantly increasing housebuilding in England – with the figure of 250,000 net new homes per year most often cited. Shelter and KPMG set out a detailed programme for reaching that level of output back in 2015, and we remain confident that this target can be achieved and even exceeded, given the necessary political will. To illustrate the potential for Section 106 to deliver Fair Rent Homes, we therefore assume that total supply over a five-year funding programme averages 250,000 homes per year.

S106 policy

Shelter has long called for Section 106 policy to be tightened, to avoid abuse and increase the percentage of affordable homes provided. Over the last ten years an average of 21 per cent of new homes have been classified as affordable[47], although this includes Affordable Rent homes that few now consider to merit the label. There is currently some confusion as to the precise targets the government is committed to, but the pledge to provide 275,000 affordable homes[48], and a separate ambition for 1 million homes overall by 2020 implies a target percentage of 27.5 per cent affordable – a small increase on recent performance, but still well below the 44 per cent of the mid 1970s or the 35 per cent achieved over the ten years to 1987.

Shelter's position is that affordable housing should make up half of new supply: The Mayor of London and many local authorities have also set this as a target.

A sizeable proportion of this greatly expanded programme of affordable housebuilding must be for social rented homes, for which there is an urgent need. We have therefore assumed a tenure split within the 50 per cent target of 20 per cent social rent, 10 per cent intermediate (mainly shared ownership) and 20 per cent Fair Rent Homes.

On these assumptions, a five-year programme for delivering Fair Rent Homes at scale could look like this.

Proposed programme	Per year	Over five years	Over ten years
Total housing supply	250,000	1,250,000	2,500,000
Affordable homes (50%)	125,000	625,000	1,250,000
Of which social rent (20%)	50,000	250,000	500,000
Of which intermediate (10%)	25,000	125,000	250,000
Of which Fair Rent (20%)	50,000	250,000	500,000

This represents a substantial increase in the supply of all types of affordable home: output for 2015/16 was 163,940 overall[50], and only 32,110 affordable homes were completed[51] of all types, or less than a fifth.

47 DCLG live table 209

48 http://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2015-11-03/14609

49 https://www.gov.uk/government/publications/dclg-single-departmental-plan-2015-to-2020

50 DCLG Table 120

51 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/569979/Affordable_Housing_Supply_2015-16.pdf

Land value capture

A strengthened Section 106 policy would be an improvement on the current position, but it would still be a relatively weak form of land value capture. Section 106 relies on private landowners and developers bringing schemes forward, which makes it vulnerable to market sentiments and downturns. And even in strong market conditions there are ample incentives and opportunities for developers to minimise their contributions. There is huge scope for other forms of land value capture to play a bigger role in shaping development – as outlined in Shelter's New Civic Housebuilding report.

New Civic Housebuilding identified four broad methods for getting land into high quality development at lower costs, in addition to Section 106:

1. **Investing public land** into schemes, rather than selling such sites to the highest bidder. The public sector should lead by example, using its assets to support high quality development and affordable housing. The values at which such land should be invested must reflect the desired scheme, not what the site might have fetched if sold on the open market

2. **Acquiring land at a fair value** and contracting builders to deliver high quality schemes made possible by the lower land cost. A fair purchase value might be the existing market value of the land (it's agricultural or industrial value), plus a degree of compensation. This can be achieved by agreement with landowners (as typically happens on rural exception sites), or by acquiring land in the open market without revealing the intention to develop it. This was how Hamburg city council built the Hafen City urban extension, and how the first garden cities were built by the Edwardian philanthropists. In the modern land market such subterfuge is difficult, so this would probably need to be done via equity investment deals with landowners, backed by the fallback of compulsory purchase. For compulsory purchase to deliver land at lower prices, the compensation code will need to be amended via legislation.

3. **Strong masterplanning, backed up powerful incentives to bring land forward.** The same principle can be achieved if a strong masterplan is produced for a site which reflects local needs and aspirations, and the landowner is then prepared to bring the land forward at a price that reflects the masterplan. Incentivising landowners to do this, rather than hold out in hope of a higher land price in future, is likely to require changes to the incentives on them – such as imposing costs on the holding of land in the form of an annual tax on undeveloped sites. Alternatively, a willingness to use compulsory purchase powers can provide a credible

threat that the landowner may lose out more if they do not co-operate with the agreed plan.

4. **Incentivising landowners to sell at lower values by pooling land.** Another incentive based approach is to offer landowners on a large site a single value based on the plan as a whole. The idea here is that the masterplan could be changed so that any particular landowner might have a high value use (residential) or a low value use (a public park). Landowners are therefore incentivised to sell at a common value reflecting the scheme as a whole – including infrastructure. This approach is used on occasion here, and is common in the Netherlands, where infrastructure costs are also included in the price paid to landowners.[1]

It is not possible to quantify exactly how much value could be directed to affordable housing through these routes, but evidence suggests the potential is huge: the Centre for Progressive Capitalism has calculated that windfall profits from land value gains hand landowners £9.3 billion each year.[52] Capturing even some of this value for public benefit could transform the funding of affordable housing.

As an illustration, with land values in London and the South East of £100 per square foot used as the benchmark for the model (a weighted average of evidence from multiple sources regarding residential land values for both flats and houses in London and the South East), there are clear gains to be made from a form of land value suppression.

The DCLG's Land Use Change Statistics finds that in 2015/16, averaging across all LAs in the South East and London, 37 per cent of new residential addresses created were on land that had not been previously developed; 21 per cent were created on previously residential land and 41 per cent were created on previously commercial developed land uses.

Using the uplift in value calculated by the DCLG land values for policy appraisal (South East agricultural to residential post-permission uplift of 16,000%) and the lower uplift found by the GLA's Economic Evidence Base in 2016 of 220% from industrial land to residential land (assumed to apply to South East as well), we estimate that under its existing uses, the land coming forward in London and the South East will have around 35 per cent of the value that it will have once full planning permission is achieved.

52 https://www.insidehousing.co.uk/comment/comment/landowners-should-not-reap-all-the-benefits-from-development-49206

If land could be acquired at Existing Use Value plus, for example, a 30 per cent premium (still a generous return to the landowner), just in London and the South East alone, this would reduce the average cost of land per square foot by over half, which would contribute £1 billion per year to our Fair Rent Homes programme.[1]

Shelter intends to do further work on this issue, to move beyond the illustrative – but it is clear that combining the Fair Rent Homes offer with transformative approaches to land valuation could realise significant benefits to the public purse while contributing to overall supply and producing genuinely affordable homes for hard-pressed renters.

New Civic Housebuilding

In *New Civic Housebuilding* Shelter set out its vision for delivering good quality, affordable homes at scale, reducing our dependence on the speculative development model that has so manifestly failed. Currently, speculative developers must compete to pay the highest price for land, concentrating benefits in the hands of a single landowner rather than the wider community. To offset high land costs, developers must then compromise on quality and affordability, resulting in unattractive, poorly serviced neighbourhoods with few affordable homes – and sky-high market prices. This approach does not even guarantee maximum supply, as developers cannot release new homes to the market at a rate which threatens their sales price assumptions.

Civic Housebuilding reverses this dynamic, by drawing on lessons from Britain's most successful and popular developments of the past. From Edinburgh's New Town and Bath's Royal Crescent, from the Boundary Estate in Shoreditch to Letchworth Garden City: the best places have all been built using versions of Civic Housebuilding. In essence, this centres on capturing the value created by development for public benefit, and to improve the quality of development itself, rather than seeing it all go to inflated land values.

This vision of New Civic Housebuilding should be the driving force through which Fair Rent Homes are delivered. This approach has the potential not only to improve the quantity, quality and affordability of new homes – it can also reduce the need for direct grant.

Using a range of measures including public land use, comprehensive master-planning, collaborative design and land assembly, New Civic Housebuilding would enable bodies with a genuine commitment to building homes for the local community to access to land at cheaper prices. This creates more head room to allow for genuinely affordable housing on site, particularly if the bodies developing the homes are able to share in the uplift in land values created by new development and infrastructure.

Government should endorse the principles of New Civic Housebuilding, and act to give local authorities and other public bodies the tools they need to set up local development corporations and assemble land at lower prices. Private landowners should be incentivised to invest their sites into well-planned, area-wide schemes – rather than holding out for a speculative windfall. Where local authorities have public land they should be empowered to work through joint ventures to remain invested in the land and share in the gains from the uplift in land value. The value created can then be used to ensure that a good proportion of homes built by new civic housebuilders are affordable, including a new generation of Fair Rent Homes for low and middle earners. This can be captured to pay for genuinely affordable housing on site.

Conclusion: a ladder up for hard-pressed renters

Hard-pressed renters are among those badly let down by the current broken housing market. After paying high rents, 1.3 million of them are left with too little to have a decent standard of living and half of low income renters cannot even save £10 a month towards future homeownership.

Combined with high house prices and stagnant incomes, homeownership is in free fall. This has not gone unnoticed by past governments, but initiatives such as Starter Homes and shared ownership that are intended to provide a foothold on the housing ladder are increasingly unaffordable. 1.6 million private renting households are facing a future where even shared ownership is out of reach.

> Hard-pressed renters are let down by the market and the supposed alternatives

Unable to aspire to homeownership, hard-pressed renters are also unable to turn to social housing to provide an affordable, stable and decent home. They are currently let down by both the market and the supposed alternatives. Lack of supply acts as a serious barrier and allocation systems continue to ration limited supply towards those in the greatest need, whose numbers continue to swell. Moreover, many do not see traditional social housing as the answer to their housing need. They perceive social housing to be a form of welfare assistance rather than a viable route out of a broken housing market. While homeownership has become an aspirational pipedream, traditional social housing is not aspirational enough.

Successive governments have been too slow to respond to the emerging needs of this group. But there are reasons to be optimistic for the future. The current government's housing white paper recognised that the housing market is broken and the prime minister is speaking openly about the need for social rent. This creates permission for bold solutions, both to address the structural dysfunctionality in the housing market and provide solutions where the market cannot. The prime minister has pledged to be on the side of just managing families. Many of these are worried not about their next mortgage payment but about their next rent payment. Shelter's analysis finds 700,000 'just managing' households in the private rented sector. Offering an alternative to high rents and lack of security provides an immediate route to improving the lives of ordinary families across England.

Shelter calls on the government to support investment in 500,000 new Fair Rent Homes for hard-pressed renters. This would create an attractive and viable alternative targeted at households on below-average incomes. Fair Rent Homes would offer genuinely affordable rents, linked to local earnings, enhanced security of tenure so families can put down roots, and the financial breathing space to enable households to save for their future.

Fair Rent Homes provide a key opportunity to put Shelter's vision for New Civic Housebuilding into practice. New homes would respond directly to local affordability constraints, capturing the benefits of development to produce affordable, well-designed homes.

This new generation of Fair Rent Homes should invoke the best traditions of social housing and be marketed as a solution for aspirational low and middle earners, not a safety net for those fallen on hard times. Government investment in new sub-market housing would be recognised as a tool for housing policy, providing much needed supply and responding to market failure. Families should know that moving into a Fair Rent Home is the path to a more financially secure and stable future offering them a ladder out of the broken housing market.

Shelter helps millions of people every year struggling with bad housing or homelessness through our advice, support and legal services. And we campaign to make sure that, one day, no one will have to turn to us for help.

We're here so no one has to fight bad housing or homelessness on their own.

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