SHELTER

Shelter submission: House of Lords Built environment committee inquiry into housing demand in the UK

Introduction

Shelter is the UK's biggest housing and homelessness charity. Throughout the pandemic, we have seen first-hand the impact that the scarcity of social housing is having on families across the country.

For decades, successive governments have failed to invest in social housing: genuinely affordable homes that are tied to local incomes and that households on low incomes can afford. The impact of this failure is clear: there are now over one million households on social housing waiting lists across the country and this is just the tip of the iceberg. Many more families struggle to get by in overcrowded, expensive, poor-quality private rentals, and increasing numbers now rely on housing benefit to pay the rent. Tens of thousands of families are trapped in poor-quality temporary accommodation, costing local authorities upwards of a billion pounds every year.[1]

As an unashamedly pro-housebuilding charity Shelter supports the government's aim to increase the supply of housing in England. However, we also believe that the type of home we build and how we build them are vital considerations. Housing demand in this country can only be met by large-scale investment in genuinely affordable, good quality social housing.

To meet housing demand and tackle the housing emergency, Shelter recommends that the government:

1. Deliver at least 90,000 new good quality social homes a year. This will require investment of £12.8 billion a year over the next ten years. Not only will this deliver the type of homes we need and on the scale we need, but a significantly ramped up, funded, supply of social housing will also provide the secure, countercyclical flow of new work and the conditions needed for the industry to innovate and modernise towards energy efficient house building.

2. Ensure all new housing units go through a full planning process, meaning Permitted Development Rights should play no role in the creation of new homes.

3. Ensure that any reforms introduced to the planning system increase the number of new social homes. The government should provide a legal guarantee that the new Infrastructure Levy will increase the supply of new social housing.

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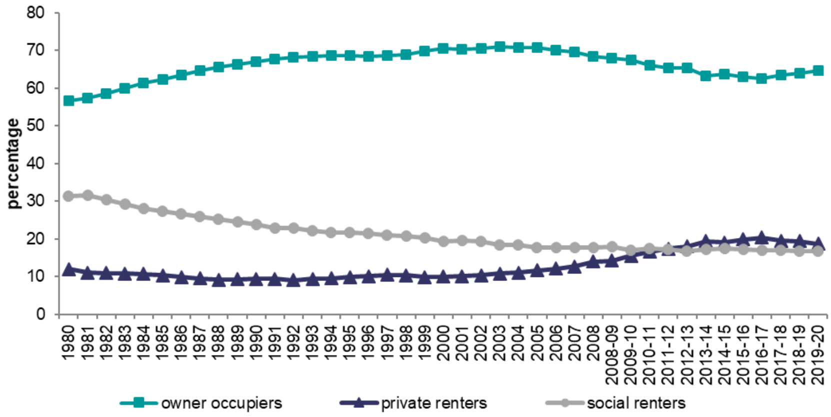
[1] Garvie, D., Cashing in: How a shortage of social housing is fuelling a multimillion-pound temporary accommodation sector, Shelter, February 2020.

1. What is the current composition of the UK's housing sector? How is the sector structured in terms of private ownership, privately rented accommodation and social housing?

Over the last 40 years the UK housing tenure mix has shifted dramatically. Whilst homeowners have remained the majority, the private rented sector (PRS) has doubled in size since 1980. Government policy has remained focused on homeownership, but this hasn't stopped growth of the rented sector – and may have boosted prices, locking renters out of ever owning their own home.

Over the last 20 years wages have not kept pace with rents meaning that now 60% of private renters have no savings whatsoever. This, coupled with the failure of successive governments to build genuinely affordable social housing, has fuelled the growth of the PRS. There are now 1.1 million households on social housing waiting lists, with the real figure projected to be much higher (by 500,000 households).[2]

Figure 1.1: Trends in tenure (proportions), 1980 to 2019-20 – source English Housing Survey



Prior to the introduction of Right to Buy (RtB) and the shift to greater access to mortgage credit, owner occupation made up just over half of all households and social tenants made up three quarters of all renters.

However, the changes to tenure also affected the supply of homes. In response to RtB, and limits on council borrowing, social housing construction began to slow. Further, in 2011 the government shifted delivery towards so-called 'affordable housing' over social housing and emphasised private delivery and the cross-subsidy model over government delivery or grant. This means that today housing supply of genuinely affordable tenures is but a shadow of its historic picture.

This shift towards an increasingly dysfunctional and pro-cyclical market-driven housing supply chain has driven price rises,[3] propped up by successive governments' flawed belief that the route to financial stability and wealth is through house price

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[2] People in housing need: A comprehensive analysis of the scale and shape of housing need in England today, National Housing Federation, September 2020.

[3] Alongside low interest rates

inflation and policies to subsidise and promote homeownership amongst a select group (asset welfarism). These policies, such as Help to Buy, First Homes, Shared Ownership, which come at the cost of genuinely affordable social housing, may have helped some to buy at an earlier juncture, but have left millions stuck in an under-regulated, insecure and expensive private rented sector, and a dwindling supply of social housing.

2. What social and demographic factors shape housing demand in the UK? What are the expected future trends in housing demand?

The decision not to invest in social housing, to make the market increasingly pro-cyclical and to focus primarily on promoting homeownership as a means of wealth generation has driven demographic trends in our dysfunctional housing system and household formation. It would therefore be an error to assume that demographic factors are the prime determiner of housing demand.

There are increasing numbers of older people and families stuck renting, faced with regular rent rises, forced to move home at the whim of their landlords, and unable to access a more secure home. Once the domain of younger people starting out in the world, the PRS now has 1.9 million families and is an increasingly older demographic. The expense of private renting makes it hard to save, and over 60% of renters have no savings whatsoever. There is also a large group of low-income people that would otherwise have been in social housing: 45% of renters rely on housing benefit to pay rent.[4]

In the UK and globally the age profile of populations has increased; as such, existing households have remained in housing units for longer. This means older households, where dependent children have left, hold larger family homes for longer. This is evidenced by the fact that almost two thirds (63.4%) of owner occupiers are childless households – that's higher than all rental tenures (56.4% for PRS and Social Renters).[5]

Taxation policy has also incentivised owners to hold onto larger/more expensive homes, reducing their availability for younger households looking to start a family. Whether housing acts as a significant barrier is debatable, but the average age for a woman to have their first child, and the average age for a first-time buyer has been rising over time.[6]

Because housing supply has slowed over countless decades, and housing costs have risen, renters have been forced to overcrowd to manage affordability issues.

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[4] Berry, C., Universal Credit Alert Briefing, Shelter, April 2021.
[5] English Housing Survey 2018 to 2019, MHCLG. Shelter analysis comparing % of households with children across tenures.
[6] Births by Parents' Characteristics, Office for National Statistics, November 2020.
Average First time Buyers age, UK Finance.

We've also seen that the long-term downward trend in household size stop.[7] This has made future estimates of housing demand harder to estimate, but also illustrates how housing costs have impacted on demographics rather than the other way around.

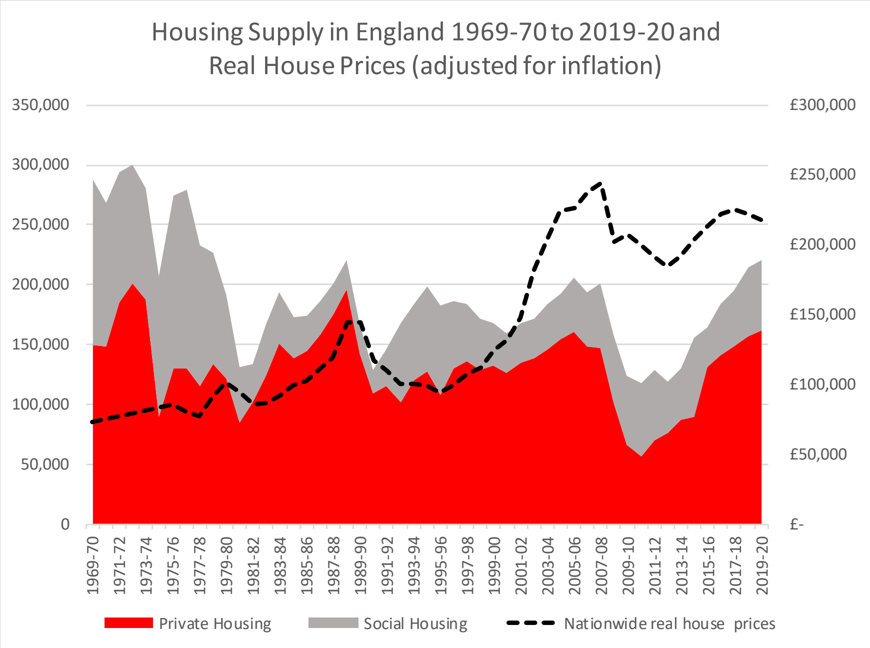
Recommendation: The private market, left to itself, is not providing the right type and tenure of homes. The government must invest in more genuinely affordable, good quality, well designed social homes that address housing demand and are built for the future.

3. Does the Government's target of 300,000 new homes per year accurately reflect housing demand? Is this target achievable?

It is true that we need more homes, but the 300,000 target ignores the most important factor: tenure. 300,000 homes built for sale on the private market will, at most, merely slow the rate at which homes become increasingly unaffordable. At worst, it could fuel unaffordability by making land increasingly scarce. It is crucial that the government makes a real assessment of housing need, that includes social housing, rather than rely on volatile transaction levels in the market. Our own work notes that we need at least 90,000 social homes built a year to end the housing emergency.

In 2004, the Barker Review of housing supply concluded that the responsiveness of the housing market to price signals meant too few homes were being built. As the below chart shows, the system dominated by private development, as it is now, was last able to supply over 250,000 homes a century ago.

Figure 3.1: Housebuilding in England 1969-2020. MCHLG; Private Supply table 208 & live table 118; Social Housing table 208 & live table 1000



[7] Bentley, D; McCallum, A; [Rise and Fall: The shift in household formation growth rates since the 1990s](), Civitas, February 2019.

Reliance on the market has done little to grow market capacity as any innovations in housing construction have only served to shift gains towards landowners. This interpretation of the data was re-enforced by Sir Oliver Letwin's independent review of build out rates; simply put, developers will only build what they expect to be sold, and the high cost of housing has reduced the number of first-time buyers. Letwin concluded that a greater level of diversity of tenure on site would be needed to ensure faster build out.[8] This diversity previously existed when more homes were built by public bodies for the purpose of building homes for households on low incomes.

Given the lack of progress in achieving the original target, it seems likely that 300,000 new homes each year is unachievable without direct government investment in social housing.[9] Without this, it is certainly not achievable by the target years of 2025/6.

4. What is the balance of demand for new housing between homes for private ownership, privately rented homes, and social housing? How does this affect the type and tenure required of new homes?

Presently, market demand is funnelled towards large family homes in greenfield development (as the Letwin Review noted) so demand is dampened by high prices and relatively poor conditions in the PRS. Meanwhile in the social rented sector, 'demand' is moderated by waiting lists, making access to any form of affordable housing a waiting game. The large reduction in social housing stock, as a result of reduced supply and stock depletion via Right to Buy also means that this tenure has become a resource for only the most disadvantaged, making it less attractive and attainable for those that could benefit from lower rents and more secure tenancies.

Recommendation: Shelter has argued that a greater funded supply of social housing – a tenure that is immune to adverse market movements – would support a more robust residential construction sector, as well as draw demand from the private sector by offering a home to those on the lower end of the income scale. Doing this will also motivate landlords to improve stock to attract tenants with more financial resources.

5: What can be done to ensure there is a good balance of new homes where they are needed across the UK?

Ensuring a good balance of homes is delivered everywhere in the UK is crucial in tackling our nationwide housing emergency. This means pulling on all levers available to deliver the homes most urgently needed, where they are needed. In England, current government policies – chiefly in the planning system and its investment programmes –

[8] Letwin, O., Independent review of build out: final report, MHCLG, October 2018.
[9] The full text of the commitment was '300,000 homes a year, on average, by the mid-2020s'.

impact the ability of places to meet the need for social rent homes that they've identified.

Policies in the planning system, set out in the National Planning Policy Framework, limit the ability of local authorities to deliver the social rent housing they urgently need.

The requirements for local affordable housing policies to reserve the first 10% of homes in a new housing development for 'Affordable Homeownership', and for 25% of Affordable Housing contributions to be First Homes are inflexible. These policies prevent areas from prioritising addressing the shortfall of social rented housing, especially in locations where there isn't significant demand for First Homes or overall affordable housing contributions are constrained.

In addition, the 'small sites exemption' which prevents social housing being delivered on most developments of less than 10 homes prevents many areas - especially where developments are often smaller - from getting vital social housing contributions.

But despite currently delivering the majority of social housing in England (see question 7), the planning system alone cannot deliver the number or types of homes needed across the country.

Where development viability is limited, securing good levels of affordable housing through planning obligations is challenging. In areas with high land values, high housing costs and/or high housing need, securing enough social rent homes through planning obligations alone is not possible. As the most affordable type of housing, social rent requires greater subsidy than other so-called 'affordable housing' tenures. Government grant to deliver social rent homes is needed right across the country to fill the subsidy gap.

But the current Affordable Homes Programme (2021-26) settlement is too small and its prioritisation of homeownership at the expense of genuinely affordable social rent homes means that in its current form it will not address the huge shortage of social housing in all the regions.[10]

It also carries arbitrary restrictions which prevent certain areas from delivering social housing, despite clear ambitions from both councils and locally operating housing associations to do so.

In many areas, available grant rates are too low to subsidise the delivery of social rent homes, forcing those places to settle for more expensive Affordable Rent homes (set at up to 80% of market rents). In others, the £50 rule – which excludes areas with a smaller than £50 gap between private and social rents from accessing the size of grant needed to deliver social rent housing – has prevented areas from building social housing with grant altogether.

In many of these areas, disproportionately located in the North and Midlands regions, the outflow from the social rented sector through Right to Buy sales is significant yet

[10] Bibby, J. and Bhakta, T., Building our way out: Investing in social housing to boost the economy and level up the country, Shelter, October 2020.

new social housebuilding to replace those homes is out of reach because of the restrictions in place in the Affordable Homes Programme.

6. Is the construction sector able to deliver the UK's housing demand? What barriers are facing the sector?

The UK housing system's overreliance on market delivery for new build, making it increasingly pro-cyclical, is the primary barrier to the industry's ability meet the demands of tackling the twin crises of housing and climate.

As the Farmer Review (2016) comprehensively set out, booms and busts in the housing market shape employment and investment practices in the construction industry.[11]

Larger developers know that housing markets are hit hard by downturns. This makes them reluctant to provide long term employment. Instead, employment risk is pushed down the chain to small and medium-sized (SME) building firms and contractors, while the larger firms with reserves enough to weather a downturn can close sites and wait for the market to return to normal. Following the 2008 global financial crisis, one in three SME housebuilders left the sector– either switching to other services, like repairs, or becoming insolvent.[12]

Construction is also characterised by unusually high levels of self-employment. Between April and June, self-employed workers made nearly 40% of the total construction workforce, as opposed to under 15% across all industries.[13]

Insolvencies and drops in available work mean many of these workers lose employment and/or leave the sector to train in another industry. As the Construction Skills Network annual forecast shows, the main outflow of workers from the sector is transfer to other industries.[14] Upturns in employment in the construction industry typically are not enough to bring the workforce back up to pre-downturn levels. Each bust represents long-term, seemingly irreversible damage.

For housebuilding this represents a major threat to the government's 300,000 homes target. There may simply not be the workforce present to deliver the numbers of homes needed. Recent industry survey results found 53% of builders were struggling to hire carpenters and joiners (up from 23% 6 months prior) and 47% were struggling to hire bricklayers (up from 22% in Q4 2020).[15]

The pandemic is likely to have played a role in the most recent dip, but the constructions skills shortage is a long-term challenge facing the industry and sharp drops like these have not been met with corresponding rises in recent decades. Total

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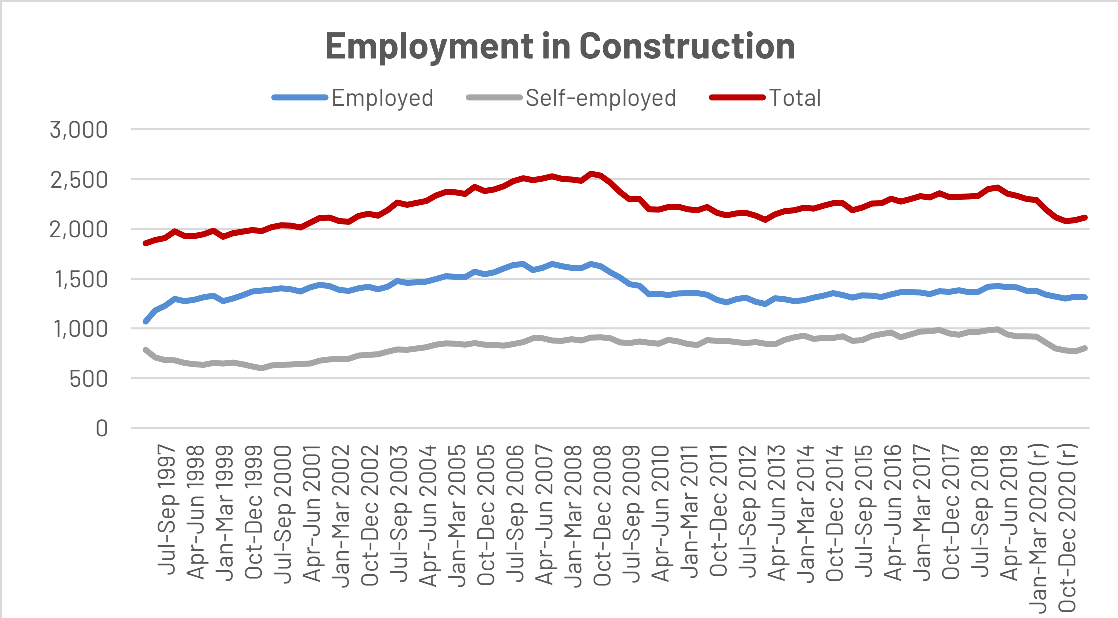
[11] Farmer, M., The Farmer review of the UK construction labour model, Construction Leadership Council, October 2016.
[12] Reversing the decline of small housebuilders: Reinvigorating entrepreneurialism and building more homes, Home Builders Federation, January 2017.
[13] Employment and labour market: EMP14 Employees and self-employed by industry, Office for National Statistics, August 2021.
[14] Construction Skills Network forecast UK 2019-2023, CITB, February 2019.
[15] State of Trade Survey Q2 2021, Federation of Master Builders, August 2021.

employment levels in construction had not recovered to pre-financial crisis levels even before the pandemic.

Figure 6.1: Employment in Construction 1997-2020. Source – ONS.



Further, the cyclical nature of demand for new housing severely limits the industry's ability to upskill, and curbs incentives to invest in new factories, machinery and technology needed to deliver the energy efficient housebuilding demanded by Net Zero.

Recommendation: A significantly ramped up, funded, supply of social housing can provide the secure, countercyclical flow of new work to keep construction workers in work and the conditions for the industry to innovate and modernise, all whilst delivering the type and scale of homes needed to begin tackling our housing emergency.

7: The Government has published its proposals for reform of the planning system. How can the planning system be shaped to meet housing demand?

7a: What role should permitted development rights (PDR) play in this?

Permitted development rights (PDR) should play no role in meeting the need for new housing in this country. Since the initial expansion of PDR to cover office to residential conversions in 2013 it has become very clear, as the government's own independent analysis shows, that these conversions are associated with poorly located, poorly designed and poorly maintained housing. Housing that, all too often, seeks to take advantage of the housing emergency we face in England rather than contributing to ending it.

Shelter's own research into Temporary Accommodation (TA) has frequently brought us into contact with the reality of PDR conversions. Numerous private companies take significant sums from councils up and down the country in return for accommodating homeless families in blocks that do not include basic facilities and do not meet minimum space standards. The reality of living in substandard TA has a devasting impact on the wellbeing and health of families, which has only intensified during the COVID-19 pandemic. The accommodation will rarely include Wi-Fi or laundry facilities and is almost always overcrowded. Shelter has seen instances of parents and children accommodated in a single room no bigger than a parking space. It is common for children to have to share beds with parents or siblings, and for families to share communal bathrooms or kitchens with others in the block, making it impossible to self-isolate in during the pandemic. This does not, in any way, meet demand for housing.

In recent years Shelter has campaigned strongly against repeated efforts to expand the PDR system. We have done this on the basis that rather than supporting an end to the housing emergency, extending PDR risks exacerbating the crisis by:

- Choking off the supply of social and other affordable homes, which are needed most urgently to address housing need;
- Worsening the existing overconcentration of housing supply on market sale, where market absorption barriers place fundamental limits on build out rates;
- Circumventing the planning system in ways which risk further alienating local communities from new development and undermining local support for new homes;
- Undermining the quality, size and safety of new housing;
- Limiting the resources available to provide physical, green and social infrastructure alongside new homes;
- Further reducing the resources councils have to deliver planning services (because of the loss of planning fees);
- Incentivising unscrupulous developers to focus on delivering cheap conversions in order to maximise profit, including by making use of them as TA, taking advantage of the desperation of individuals and local authorities trying to cope with the sharpest effects of the wider housing emergency.

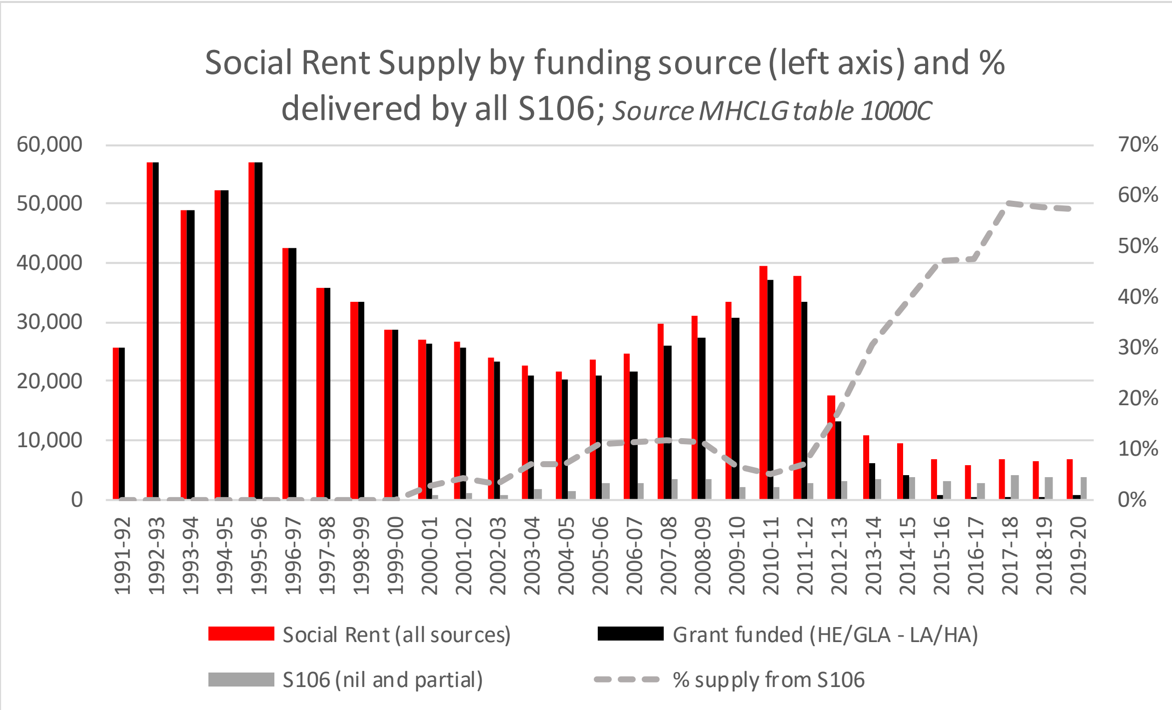
Recommendation: The government is reforming the planning system and promises to make it more efficient and effective in delivering good quality, well designed homes. There should be no place for a shadow planning system that circumnavigates all the checks and balances that ensure good design and quality homes. All new housing units should be expected to go through a full planning process, and PDR should therefore play no role in the creation of new homes. The government should be addressing national housing need by investing in good quality, genuinely affordable homes.

7b: How might changes to Section 106 agreements shape the provision of social housing?

The planning system is the backbone of the housing supply system. It has a critical role to play in ensuring that developers pay their fair share to offset the impact of new development on the local community. It is also crucial in ensuring that the taxpayer and community benefit from the enormous land value uplift that the government gives landowners when it grants planning permission. Finally, it has a vital role in ensuring that we plan for and deliver the right number of genuinely affordable social homes that this country desperately needs.

With central investment so low, the planning system delivered more social housing over the last decade than any other route. Section 106 agreements are now responsible for the majority (57%) of the tiny number of social homes built every year in England (see Figure 7.1). Five times as many social homes were delivered through Section 106 agreements in 2019-20, compared to homes delivered by central grants.

Figure 7.1: Social rent supply by funding source and % delivered by S106. Source – [MHCLG table 1000C]()



Section 106 is far from a perfect system and there are certainly measures the government could take to improve it. Shelter believes that Section 106 negotiations should be improved to be more transparent, consistent and certain – and to deliver a greater share for social housing.

There are some approaches already being taken at a local level which could be developed, rolled out more widely and supported by national policy to improve Section 106. For example, tightening loopholes that allow developers to avoid affordable housing contributions, increasing incentives to develop schemes with higher proportions of affordable homes, or taking a tougher line with developers who propose schemes with affordable housing short of policy.

Instead of improving Section 106, the government has proposed to replace the system with a new consolidated Infrastructure Levy. Shelter has previously written about our concerns about replacing Section 106 with an untested levy.[16] The government has not yet provided an assessment of how the levy will work, and crucially, how it will impact social housing delivery. While Shelter agrees with the government that the system of development contributions should be as transparent, consistent, speedy and certain as possible, it has not yet presented a clear plan for how the new system will ensure this and deliver the social housing we need.

Recommendation: Shelter recommends that the government adopt a 'test and learn' approach, piloting the Infrastructure Levy in certain parts of the country to understand the impact on affordable housing delivery and to identify any perverse incentives. The government should provide legal certainty that the new system will increase the supply of social housing.

[16] Bibby, J. and Bhakta, T., Consultation response: Planning for the Future, Shelter, November 2020.