

## **Affordable Housing Commission**

### **Response from the Northern Housing Consortium to the Call for Evidence**

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## Executive Summary

We believe there is an urgent need to review the impact of affordability in the regions and to assess how the interpretation of affordability impacts upon different parts of the country.

Housing markets across the North East, North West and Yorkshire and Humber are extraordinarily diverse and this presents challenges which are significantly and materially different from those in London and the South East.

It may seem hard to make the case for affordability where market, affordable, and social rents overlap. But low house prices are to an extent mirrored by low income levels and lower wealth in the North. This explains why affordability remains a challenge.

Our evidence shows that the picture of housing affordability in the North requires intervention in the following key areas:

- Government policy directs support to areas of highest affordability pressure and in doing so leaves large parts of the country to deal with its own challenges – a national housing regeneration strategy is needed to give a national vision.
- The infrastructure deficit isn't just in roads and railways; it is also to be seen in the quality and age of the existing housing stock, with large quantities of pre-war terraced housing – housing is part of this infrastructure.
- New supply is only a small proportion of the potential affordable housing market: the condition and quality of the available housing stock provides the potential for large numbers of affordable homes.
- Households with no choice because they cannot access good quality, affordable housing often live in poorer quality housing and this impacts on the health of residents. Decent home standards need to sit alongside affordability - in some areas properties may well be affordable but are either sub-standard, or just not fit to live in.
- Incentives in the land market must be addressed as part of the affordable housing crisis.

Scarcity of good quality, accessible housing in the North has left real questions about choice of affordable housing for many households. All local authority areas in the North report a shortage of affordable housing. Just under 20,000 affordable homes are needed across the North of England annually. To deliver this number, new supply is only a small proportion of future supply. It will be important to continue to support regeneration of the existing housing stock to meet the requirements for affordable housing.

In parts of the North housing stock and neighbourhoods remain in poor condition. Councils report that the neighbourhood qualities cited most by residents are related to the quality, choice and affordability of homes as well as the quality of the built environment and levels of ASB.

An absence of a clear strategy for regeneration or mainstream regeneration funding will make these issues difficult to address, and development values are not sufficient to encourage private investment without the need for significant subsidy.

National policy is at present largely concerned with the challenges associated with the overheated housing market in London and the South East; concerns about affordable home ownership for first time buyers; lack of available finance; levels of new construction; and speed of the planning system. The inter-play between the housing system and inequalities across households in different parts of the country has less of a focus.

The broader policy shift towards devolution, and especially the role for Combined Authorities in taking a broad view in matters of strategic housing and economic regeneration is important and should allow for more regional differentiation. Treating housing as infrastructure, alongside transport and investment in employment would mean that public money spent can be judged on whether it is delivering the right housing solutions in the right places.

Building more homes should be a priority, but so should improving the quality of existing homes. There is an important opportunity for the Commission to explicitly recognise this and to push for a move away from “one size fits all” approaches which are clearly no longer appropriate.

Many of the supply and demand issues are inter-related. A refreshed approach to affordability will ensure the right mix of housing that is affordable across a range of tenure and income levels. New and existing homes will be well connected to employment opportunities and there will be an approach that recognises the importance a balanced housing offer plays within well-connected places.

## Part 1 Understanding the affordability challenge

### Affordable Housing in the Northern region

- 1.1 There are commonalities in the national picture of why housing is unaffordable – an inflated market, restricted access to mortgage products and a lack of social housing supply has resulted in fewer households being able to buy which has placed increased pressures on the existing affordable housing which in turn has led to a huge increase in reliance on the private rented sector.
- 1.2 The conventional measure of affordability is calculated as median house price to median income. This is a simple and straightforward measure of how expensive housing is, but it doesn't explain why housing is not accessible in so many areas which have a lower than average ratio for affordability.
- 1.3 In the Greater London area, the ratio is at its highest since data became available with a multiple of 13.24. For the UK the lower quartile ratio is 8.37. The three Northern regions are below that ratio with the North East 5.18, North West 5.81 and Yorkshire and Humber 5.91. Only six local authority areas are above the UK average.
- 1.4 So, compared to London and the South East and some other parts of the UK, most parts of the North, based on this ratio alone, are relatively affordable places to buy a house.
- 1.5 A similar picture emerges in the rental market. The median monthly rent recorded between 2017-2018 in England was £690. Average private rental figures in the North are: North West £679, Yorkshire and Humber £614, and the North East had the lowest median rent at £495. The Greater London average is currently £1,502. The lowest median rent in the North East was shared by Hartlepool, Darlington and County Durham (£450). The lowest median rent in England is £400 in Kingston upon Hull (Yorkshire and the Humber). So, as with purchase prices, average rental rates seem relatively affordable.
- 1.6 Yet that simple ratio doesn't account for the fact that in the North, nearly 400,000 people are on waiting lists for social housing, over 10,000 are officially homeless and 42,000 are living in overcrowded conditions.
- 1.7 We therefore believe that looking at national figures is of limited use as there are major discrepancies from one region to another.

### Housing Markets in the Northern Region

- 1.8 House prices in the North often make the headlines. There is the phenomenon of the sub-£10k house which makes an attention-grabbing story. But there is another story that doesn't make the headlines - one about housing desirability, safety, quality and accessibility.
- 1.9 The most affordable place to buy a house is in the North East in a place called Horden, County Durham, a former pit village, where the average cost of a property in the year

to June 2018 was £35,000 - just 1.4 times higher than the average income of £24,620 a year. This simple ratio in no way presents a picture of affordability for local people. Across the former mining communities, there are 50 jobs for every 100 residents of working age compared with 80 in the south-east<sup>1</sup>. In coalfield areas deprivation tends to be spread across a wide area without the segregation between poor and affluent areas. Horden is, even by these standards, an acute case with 4,985 of its 7,585-population categorised as being among the most deprived 20% of England. We may safely assume, therefore, that although the former coalfields village may enjoy affordable prices, there are fewer people living there able to access the properties.

- 1.10 Over the last 15 years – a period of significant house price inflation – the median house price in all three regions is still below £150,000. In the North domestic properties within Council Tax Band A were the largest group in England, making up 24.5% of all properties. Over half (54%) of properties in the North East Region were Band A compared with only 4% in London. Only 3% of properties in the North East were Council Tax bands F, G or H compared with 15% in both London and the South East.
- 1.11 Nationally, 1,500 LSOAs<sup>2</sup> have a median house price below £80,000 (out of about 34,700 in England and Wales) and 80% of these are in the three Northern regions.
- 1.12 Affordability in the North and the value for money it offers to potential private landlords when compared to other areas is a key factor in the accessibility of the housing market in the North to local people. Relatively cheap property prices mean that landlords can enjoy a higher yield.
- 1.13 The highest-yielding areas can generate an average gross yield of 7.8% for a landlord in the North, compared to the national average of 5.8%. In comparison, the lowest-yielding areas are those where the average two-bedroom investment property is around £326,000 and where the average gross yield is just 4.4%. Sunderland in the North East of England will yield on average 5.33% for a landlord while Reading in the South East will yield 3.08%.
- 1.14 This competition from investors who are looking for higher rental yields with cheap property prices has contributed to an unusual trend whereby house prices in all three Northern regions have risen year-on-year, while London and the South East have stagnated. Cities in the North are leading house price growth, with average values up by 6.4% year-on-year compared with average annual growth of 5.7% for the UK whilst turnover across London has fallen by 17% since 2015 as affordability pressures affect demand.
- 1.15 London is currently one of the worst performers for UK growth as investors have keenly judged they can get more for their money in the North. Investors of buy-to-let and young professional people are contributing to the stronger demand in Northern cities with Leeds and Manchester seeing some of the strongest levels of demand.

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<sup>1</sup> Source: The Coalfields Regeneration Trust

<sup>2</sup> A Lower Layer Super Output Area (LSOA) is a geographic area designed to improve the reporting of small area statistics in England and Wales.

Together with limited availability of stock for sale this is creating scarcity and an upward pressure on house prices. Price rises are not running away and there remains a huge gulf between Northern house prices and those in the South. However, with house price growth well ahead of earnings growth this is a trend which will not help many people to access housing.

- 1.16 A significant factor in affordability is that wage growth has not been the same as house price growth and has not been the same for everyone. Some older industrial regions have never completely recovered from the pit and factory closures of the 1980s and 1990s, and the real level of unemployment is considerably higher than the official rate. The 'job density' – the ratio between the number of jobs in the area and the number of working age residents – is below the UK average in many of these former industrial areas.
- 1.17 There are localised markets in the North that do not follow the convention of a north-south divide. Within a region, affordability can be strikingly different between neighbourhoods. The average annual rent for a two bedroom property in Manchester at £720 per month exceeds that of Colchester in the south east. At its most extreme, the dichotomy in such a diverse area means that there are local areas in the North where a three-bedroom terraced house in reasonable condition may cost around £80,000 but just a few streets away, property values could be four times that figure.
- 1.18 Many Northern housing markets are characterised by relatively low-income households. Even in a housing market which is relatively affordable, people with lower incomes will generally have less choice. Crucially, they are less able to afford a deposit for a house or afford the transaction costs associated with house purchase or relocation. This helps in part to explain the significance of the PRS and the relatively high level of polarisation between the market for owning and renting.

#### National Policy and the Northern Region

- 1.19 Government acknowledges that the housing crisis is a national one. Homes England's 5-year strategic plan states that it will "play a major role in making the housing market work for everyone."
- 1.20 Within this national crisis, clearly, the circumstances of the housing market in London and the South East demonstrates an acute affordability crisis – ratios of house prices to earnings in those regions are significantly higher than in the North of England. Consequently, government policy focuses its support and funding to areas of high affordability pressure.
- 1.21 This national policy of 'geographic targeted support' has an inadvertent impact in the North which is deemed to be 'affordable'. Targeted support to those areas above the median ratio of affordability fails to recognise the varied nature of affordability and leaves other areas sharing a meagre amount of support. There are areas of the North facing severe constraints with additional targeted investment needed to support major development programmes.

- 1.22 Regional inequality in government investment could mean that it becomes more challenging to attract other forms of investment in housing. Northern regions are faced with squeezed investment as market values are low, private sector investment has been weakest in Northern markets. A combination of low levels of private sector investment and far less public investment in infrastructure and housing than areas of high demand prevent different housing markets from tackling unique challenges.
- 1.23 In addition, government policy has pursued support for home ownership to the extent that other parts of the market are under-valued. There are many positive benefits at an individual level from home ownership and a range of policies directed at boosting and protecting homeownership - Mortgage Interest Tax Relief, removing stamp duty for first-time buyers, Help to Buy and New Homes Bonus. However, when policies are pursued to the exclusion of other tenures, in an aggregate sense home ownership, as a sole focus, creates housing policy weaknesses including the consequences for longer-term affordability.
- 1.24 We believe national policies must be flexible to target specific local issues – increasing supply in unaffordable markets and housing quality and renewal in more affordable ones – this will ensure that funding is directed where it is most needed, improving value for money and making more of a dent in the housing crisis.

#### Definition of Affordable Housing

- 1.25 We are concerned that the term ‘affordable housing’ has come to mean housing which is affordable to all people, when in fact this is not the case. Social rented housing is a term referring specifically to homes which are available for let at the lowest ‘social’ rents.
- 1.26 Policy on what constitutes affordable housing has changed and the range of products has widened to include property sold at a discount or a private sector property purchased for use as an affordable home. The official definition of affordable housing, according to the NPPF, includes social rented, 20% below market rent, and other affordable routes to home ownership for sale or rent, “for those whose needs are not met by the market”.
- 1.27 The continued inclusion of ‘social rent’ in the NPPF follows a backlash during the consultation on the revised NPPF as ‘social rented housing’ and ‘affordable rented housing’ had been merged into one definition of ‘affordable housing for rent’ which also encompassed ‘Build to Rent’ schemes. This reflects the general direction of national policy which categorises affordable housing as discounted market housing.
- 1.28 It is a concern that this is a move away from social affordable rental properties and represents a challenge to registered providers who face the prospect of fewer rental properties being provided by developers. From a private developer perspective, the expansion of the definition of affordable housing will no doubt be welcome as it offers greater flexibility in respect of the composition of the affordable housing they are required to provide. However, such tenures may not provide acceptable affordable housing in local areas to meet the local need.

- 1.29 Discounted housing has its place in the market, but we would not wish to see the crowding out of social rented housing or other housing with ‘in perpetuity’ restrictions. Discounted housing may no longer be subject to “in perpetuity” when those properties re-enter the housing market. Social rent homes will be affordable in the long-term, or if sold, have any grant-funding or the capital recycled.
- 1.30 It could be argued that the concept of ‘affordable’ homes should be abandoned on the basis that it has become unhelpful in meeting the difficulties faced by households on low incomes and depending upon their local area. We do not consider the ‘affordable rent’ model, where rents can be up to 80% of local market rents, to be low-cost rented housing.
- 1.31 Social rented homes must be an integral part of any affordable housing strategy so that choices don’t become increasingly divorced from earnings. Social rent is the only form of housing that is genuinely affordable for many households and upfront investment in providing more homes at lower rents delivers longer term savings by reducing the cost of welfare.
- 1.32 The affordability of rents underpins the sector’s social purpose and should be a crucial component of any future rent regime. An income related approach to affordability should be used to help develop a more sophisticated and flexible way to develop approaches to housing affordability in local markets. Manchester City Council has committed that no Manchester resident should have to spend more than 30% of their household income on accommodation - and ideally less. This requires an affordability policy which can respond to the needs of individual residents as well as the distinct needs of different parts of the City.
- 1.33 Alongside defining affordability, it is important not to lose sight of living standards. In some places properties may be affordable but are either sub-standard, or not fit to live in. Stepping up affordable housing delivery must also include high design standards, both to benefit residents and to send a strong signal to others.

#### Affordability in the North

- 1.34 The income to house price ratio is only part of the equation for people wishing to purchase an affordable property. Price and supply are not always the primary excluding elements. Securing deposits and uncertain working patterns also exclude people from affordable homes.
- 1.35 The Northern region with the lowest employment rate is the North East, at 70.6% (the second lowest in the UK). Over the last year, the North West has seen an increase of 2.0 percentage points, but the Yorkshire and Humber region saw a decrease in the employment rate by 0.5 percentage points. Although the employment rate is showing modest increases this masks the falling numbers in full-time permanent work and rising wage inequality which makes it difficult to access finance.
- 1.36 Low-wage sectors prevail in many parts of the North and the use of temporary contracts has risen as well as the need for people to maintain several jobs at the same time in order to sustain a living wage. This type of temporary and unreliable working



pattern exists where low-skilled occupations are prevalent. While more than half of jobs in London and the South East are classed as skilled professional occupations, in the North East, the proportion of skilled professional jobs is only 39%.

- 1.37 Working patterns such as temporary contracts limit the accessibility of finance approval for a mortgage when a track record of regular income is required. Coupled with the rise of ‘zero hours’ contracts this may be having a significant impact on choice of housing. It is useful that tenants can now have rental payment information included in a credit report which will boost a credit score, but proof of rental payments will not necessarily be used as evidence of affordability for a mortgage, with government stating that meeting rental payments is not sufficient in itself to demonstrate affordability over the lifetime of a home loan. Thus, low wages and unreliable working patterns explain why affordability remains a challenge in the Northern region.
- 1.38 The increase in the level of deposit needed as a proportion of the house price has increased to the extent that it stands as a barrier even in the most affordable areas. Government supported schemes have helped many into homeownership for the first time, but the cost of a deposit remains a significant barrier. This is despite the average deposit needed in the North being just £18,095, far below the UK average of £33,960.
- 1.39 An analysis of affordability on households aged under-40<sup>3</sup> (chosen to be broadly representative of the age range within which people form new households, settle down and attempt to find housing) shows that only 45% can afford to buy, based on their income and the usual standards for affordability and mortgage lending. A further 14% can afford market renting. Beyond that, a further 8% could afford Intermediate Renting. This leaves a significant 33% for whom social renting is the only reasonable option based on our affordability norms.

Region	Band	Own	Social	Priv Rent	All Hhd<40
North	Can Buy	75%	23%	43%	54%
	Mkt Rent	4%	28%	5%	10%
	Intermed Rent	3%	4%	4%	4%
	Social Rent	17%	45%	47%	33%

- 1.40 Although wage rates have been low in recent years, private rents have generally risen more rapidly increasing by around 2% a year on average since 2007.
- 1.41 Social housing has traditionally helped to reduce the impact of poverty on people’s lives, providing a secure foundation for people to build their lives and achieve their economic potential. Rent levels set close to social rents help people escape benefit dependence.
- 1.42 An increasing number of social rent properties are moving to Affordable Rents, (as government grant for new affordable homes switched from social rent to the more expensive Affordable Rent) set at up to 80% of the market rent level, but still allocated to low-income households. This means that an increasing number of tenants must

<sup>3</sup> ‘Understanding Society’ Survey (UKHLS) 2015/16

now meet higher housing costs with lower relative income. This also creates a significant disconnect between government welfare and housing policy. Welfare reform sees cutting the benefits bill, including that for housing benefit, as a major objective. Yet at the same time rent rises and policies such as Affordable Rent are increasing the benefits bill.

1.43 A recent study for JRF<sup>4</sup> took existing trends in housing and poverty between 1991 and 2008 and projected how these will change up to 2040. This found that:

- Homeownership will decline further
- Social renting will decline to house only a tenth of the population
- Private renting will grow to house a fifth of the population
- Compared to 2008, private rents will rise by 90% – more than twice as fast as incomes

1.44 The conclusion from the JRF research is that poverty is likely to rise by 2.6%, meaning 5.46 million poor households by 2040, with the relationship between housing and deprivation becoming even stronger. This emphasises the benefits to society of social housing.

1.45 The housing wealth effect in Northern regions impacts upon affordability and is an important aspect in explaining different regional wealth outcomes. The accumulation of home equity, driven by the growth of home ownership and an increase in house prices is diminished in areas of low property value. Those who own outright tend to be older and have accumulated wealth throughout their lifetime, but the share of individuals aged 65 or over living in households with net property wealth over £250,000 is a mere 10-15% in the North East, North West, Yorkshire and The Humber compared to 41% in London and 38% in the South East.

1.46 Across the UK 28% of households have zero property wealth with 1% in negative property wealth. Households with negative net financial wealth (where liabilities such as borrowing, overdrafts and debts exceed assets) is 35% in the North East. The North East is the only region in the UK in which more individuals aged 65 or over live in households with total wealth below £50,000 (24%) than in households with total wealth above £500,000 (21% - see Table 11). The role played by home equity and the accumulation of housing wealth and its ability to impact on easing and facilitating people's life chances is therefore diminished in Northern areas.

## **Part 2 Towards a new affordable housing offer – increasing supply**

### Role of Housing Providers

2.1 Councils and housing associations have worked within a challenging and austere operating environment for many years but have nevertheless continued to deliver in several key areas, attempting to establish affordability in their local areas, managing allocations and lettings and responding to rising homelessness. Nevertheless, Local Authority Strategic Housing Market Assessments in the North show evidence that

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<sup>4</sup> JRF and NHF Living Rent Report

there isn't enough affordable housing to meet the needs of the local population or to support the Northern region's growth.

- 2.2 Social housing providers are a key part of the solution to the lack of genuinely affordable housing. At local level, housing associations and local authorities have been at the forefront of finding alternative ways to tackle demand for affordable housing.
- 2.3 Our member organisations work in diverse localities, many of which are low value areas, with insufficient demand to attract new private housing development on unviable land with a range of remediation issues typical on post-industrial sites. National strategies can be meaningless in some of these localities which require place-based local solutions.
- 2.4 Certainty over rents helps to ensure housing organisations have stable funding and to maintain a good standard of accommodation. Access to grant funding and private funding has enabled housing associations to maximise new provision. However, our members tell us that grant funding needs to be sufficient to ensure rents can be affordable and it is felt by some of our member organisations that the levels of capital grant have moved too low.
- 2.5 The evidence provided throughout the [Northern Housing Consortium's Commission for Housing in the North](#) clearly demonstrated the appetite and ambitions of Northern local authorities to develop affordable housing. But fulfilling this ambition is not without challenges. Councils can make a significant contribution to fixing the broken housing market by increasing the number, the choice and the quality of homes being built. But councils in the North need to be supported in following through on their local commitment to growth. This is why national housing targets can be less meaningful than Northern targets for house-building which reflect economic and affordability contexts.
- 2.6 Our local authority members have been proactive within the constraints that they currently face, by setting up their own housing delivery companies or entering partnerships with private developers. Councils also positively link construction work to apprenticeship and work experience schemes, in partnership with private sector contractors.
- 2.7 Councils will need financial flexibilities to build new homes of all tenures through flexible grant support, delivery vehicles and using housing revenue accounts. We support bespoke deals for some councils so they can borrow more to build more homes with flexibility in the way they fund homebuilding projects. But, foremost in a return to building affordable homes, must be a focus on filling the gap in the long-term loss of these homes.
- 2.8 Combined authorities with strategic planning powers have the opportunity for joint strategic planning over a sub-regional area. Plans established through devolved arrangements tend to focus on economic growth as a driver. There is an inherent importance of ensuring that regional economic strategies and aspirations are supported with appropriate housing delivery. We would hope to see combined

authorities committing in their plans to meet assessed housing needs for the combined area.

### Role of private developers

- 2.9 At least 10% of homes on major sites should be available for affordable home ownership, with certain exemptions.
- 2.10 The use of negotiated S106 agreements has undoubtedly increased the number of affordable homes. 65% of councils said most of their social and affordable housing was delivered via S106. Amongst the Northern planning authorities there are good levels of monitoring the agreements on planning obligations and, where robust monitoring systems are in place, almost everything that is agreed is eventually delivered.
- 2.11 In the North, S106 has been used mainly to produce mixed tenure through forms of low-cost home ownership. However, because there are lower land values, the increase in value when land is designated for housing can be much less and with the result that S106 can deliver fewer affordable homes. For example, the value of direct payment obligations paid to local planning authorities is £582k per LPA in the North West as against £5.8m per LPA in Greater London. While there has been a continued increase in the number of obligations per local authority in the Northern regions, the total value of agreed planning obligations secured in the three Northern regions secured was 10% of the total value of all obligations in England - £2,672m worth of affordable housing and other infrastructure with London, the South East and East secured over two thirds (68%).<sup>5</sup>
- 2.12 Unfortunately, the impact of S106 has been undermined by developers being allowed to challenge S106 agreements following a 'viability assessment' and has given developers licence to reduce or eliminate affordable housing provision. Housebuilders can use viability assessments to prove that building the required number of affordable homes in a development will dent its profits. For example, in Wakefield, where the development on the site of Pontefract General Infirmary was required to deliver 30% affordable housing viability assessments cut this to 5% – 6 out of 124 homes.
- 2.13 Government amended the National Planning Policy Framework in 2018 making it more difficult for a developer to not follow through on plans by making them fully transparent and available for public scrutiny. Our local authority members tell us they need a system that is streamlined so that they do not have to spend precious local authority resources on lengthy negotiations. The negotiation and delivery of obligations requires a range of high-level skills on the part of planning authorities and unfortunately, in many authorities, these skills risk being lost as capacity and skill is lost in planning departments. Where authorities may not have the resources to spend on the negotiations, they lose out on the benefit that S106 provides.
- 2.14 The higher cost of land and the resultant unit cost of housing on a site is not a good enough reason to avoid providing affordable housing. The planning system should be

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<sup>5</sup> CLG The Incidence, Value and Delivery of Planning Obligations in England in 2007-08

used to promote mixed communities where a range of households have access to infrastructure, services and opportunities. Government has acknowledged that improvements can be made to both the S106 and CIL process and is consulting on further amendments. In the longer-term government is considering further changes including the introduction of non-negotiable nationally set contributions for affordable housing and infrastructure.

### Role of the Private Rented Sector

- 2.15 There are now more people living in the PRS than in social housing and this is expected to grow.
- 2.16 The PRS does not fall within the definition of 'affordable housing' but the scarcity of affordable housing stock over the last 15 years, has meant that the PRS has taken on an increasing role in providing housing for people who require financial support in meeting their housing needs. The CLG Select Committee recently found that 40% of properties bought through right to buy are now in the private rented sector.
- 2.17 It is worth noting that the NPPF definition of affordable housing says that 'Affordable housing: provided to eligible households whose needs are not met by the market'. Clearly where a household is able to access suitable housing in the PRS it is the case that these needs are being met by the market. This does not mean that such households do not have a 'need' but it reflects the solutions available to many people.
- 2.18 Government recognises this, and indeed legislated through the 2011 Localism Act to allow Councils to discharge their "homelessness duty" through providing an offer of a suitable property in the PRS. This also accounts for the increased use of B&B. As such the role played by the PRS should be part of any discussion about affordable housing.
- 2.19 While the PRS meets a need, it is more expensive than the social sector. The 2017-18 English Housing Survey (EHS) found that private renters spent 33% of household income on rent, compared with 28% for social renters and 17% for households buying their home with a mortgage.
- 2.20 This means that those in private rented sector with aspirations to buy will have to wait longer to raise a deposit if they want to purchase a property. In order to save the deposit for an 80% mortgage it would take just over seven years if 10% annual household income was saved. Therefore, even if those in the PRS aspired to home ownership they would be living in the PRS for around seven years before a deposit had been saved.
- 2.21 There must be a focus on the affordability of private rented housing for lower income groups. We welcome the intent in the government's recent proposals for longer tenancies, probation periods, and rent increases by agreement. Losing a tenancy is one of the main reasons for homelessness, doubling in the five years between 2009 and 2014 from 13% to 26%<sup>6</sup>.

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<sup>6</sup> DCLG Homelessness Statistics

- 2.22 Despite paying a higher cost for accommodation, private rental homes are some of the poorest quality. One third of private sector homes are in poor quality compared to just 13% of all social housing.
- 2.23 An estimated £2.9 billion (33%) of private sector rental HB expenditure in 2010/11 can be attributed to rent growth over the previous ten years. 'Rogue' landlords should not be profiting from public money paid out in housing benefit for properties that are not fit to live in. We fully support the current efforts to regulate and raise standards in the private rented sector and we believe this measure would be a further step towards preventing landlords from letting out sub-standard and unsafe accommodation and benefiting from the public purse.
- 2.24 The PRS is a key part of the solution to housing problems and therefore requires a more positive stance towards the sector to encourage higher standards. The focus for reform should be on a system which allows longer, stable tenancies, which imposes a degree of rent stabilisation alongside a much better enforcement system which tackles both poor landlords and tenants.

#### Land Values

- 2.25 Land markets vary considerably and, in the North, unlike London and the South East where land value uplift can make a more significant contribution to costs, the land values in the North are not there to trigger market-led solutions in many places.
- 2.26 In more marginal housing markets where land values are relatively low, the financial uplift generated is comparatively lower than it would be in more pressured markets where market rents are higher. This provides a lower level of incentive for development, than would be the case in other parts of the country.
- 2.27 A one size fits all approach is neither useful nor likely to be successful. Unlike London and the South East where land value uplift can make a more significant contribution to costs, the short-to-medium-term land values in the North may not generate market-led solutions. Tackling this could help ensure that the infrastructure needs of higher market areas are less directly in competition for national funding with the needs of other parts of the country where land values are lower.
- 2.28 Crucial to this is the ability of public sector organisations to purchase land at a value that excludes the increase in value that residential planning permission confers. Residential land valuations across the North have seen fluctuations in value in the last 20 years, spiking in 2004, and are now on average double the 1998 value meaning that local authorities frequently find themselves unable to proceed in open market competition. Whilst some of this valuation spike is fuelled by "hope" value, these residential land values are unaffordable for the public sector.
- 2.29 In post war years until the 1970s councils regularly built more than 100,000 homes a year. With government support to release land at affordable prices and to increase investment, housing associations and councils would have the potential to increase the supply of new homes for social rents, and low-cost home ownership. This would

have a positive impact on affordable housing and decrease the most acute levels of homelessness.

### Funding for Affordable Housing

- 2.30 Theresa May announced in October 2017 an extra £2bn for “affordable housing” in areas “where need is greatest” in her closing speech to the Conservative Party conference adding “In those parts of the country where need is greatest we will allow social rented housing to be built, getting the government back into the business of building houses.”
- 2.31 This shift in direction is reflected in the Homes England Strategic Plan published on 30 October 2018, with one of the Agency's key performance indicators being the share of funding to the ‘highest affordability pressure’ areas.
- 2.32 Support for the provision of affordable housing from national budgets emphasises the promotion of the Affordable Rent product as the cornerstone of the Affordable Homes Programme. The Shared Ownership and Affordable Homes Programme continues to be the main government lever to get more homes built. The Affordable Homes Programme is valuable in situations where the housing market is weak due to falling prices. When prices are falling, private house builders stop building and housing supply would collapse without government support for affordable house building.
- 2.33 On 30 October 2018, the government announced the ‘geographical targeting’ of five housing programmes: The Housing Infrastructure Fund (HIF) Forward Fund (FF) (£500m announced in the Budget, in addition to £5 billion previously announced); Estates Regeneration Fund (approximately £180m); the short term Home Building Fund (£4.5bn); Small Sites Fund (£630m); and Land Assembly Fund (£1.3bn).
- 2.34 A minimum of 80% of resources available from those programmes will, on average over the next 5 years, be directed at areas of ‘highest affordability pressure’. These are defined using the ratio of median house prices to median workplace-based household income figures. This means that Northern authorities will share 20% of the funding.
- 2.35 Homes England confirmed that this methodology applies to the HIF FF business plan projects already in development, which were announced in February 2018. Those local authority areas with a Forward Fund bid and not identified as having ‘high affordability pressure’ will be competing for a share of 20% of the £5.5 billion available for HIF FF.
- 2.36 This geographical targeting limited to local authority areas with a ‘high affordability pressure’ is where private rents are £50 or more higher per week than social rents. Areas of the highest affordability pressure will receive a minimum of 80% of the total funding from these programmes on average over the next 5 years. Only six local authorities across the North can bid. This formula was also to be applied to the Housing Revenue Account borrowing programme until the Prime Minister announced that the borrowing cap was to be lifted.

- 2.37 The new targeted approach of investment can be traced back to the inclusion of major housing programmes in the National Productivity Investment Fund (NPIF) established at Autumn Statement 2016, and then expanded to £31bn at Autumn Budget 2017 along with commitment to government investment to the Cambridge-Oxford Arc. This emphasis on financial criteria driven by property values disadvantages lower value areas including many parts of the North.
- 2.38 HIF - an extremely competitive bidding process - pays for roads, railways and schools ultimately intended to support the building of new homes. Success in the competitive bidding process involves demonstrating the highest financial return for the lowest investment. This has a bias towards areas where homes are sold at higher prices, not in Northern areas where the average price of a property is £140,000. We are particularly disappointed that in addition to the competitive bidding process, geographical banding has been introduced.
- 2.39 We are working with our members to support them in their applications for the remainder 20% of the funding and to help ensure that the methodology being used to calculate these grants does not impede provision of affordable housing in Northern local authority areas.
- 2.40 Government must ensure the investment plan can meet the scale of investment needs in all parts of the country, not just in areas of highest affordability pressure.

### **Part 3 Towards a new affordable housing offer: managing demand**

#### Better use of existing stock

- 3.1 In the North, the affordability crisis isn't just about new supply; it's about the quality and age of the existing housing stock. New supply is needed, but it is evident that it isn't the 'silver bullet' solution. Even if we stay on target to build new houses in the North, the existing stock will still constitute over 80% of all homes.
- 3.2 Affordability would be extended to more people if the quality and accessibility of existing housing was improved. The national focus on new supply of housing potentially prevents this from being tackled. This means that areas that could be affordable are populated with many older properties which are either unoccupied or in poor state of repair.
- 3.3 Unless the supply of existing housing is good quality and accessible, the affordability challenge won't be addressed.
- 3.4 Many parts of the North have an oversupply of pre-war terraced housing, often in geographically or economically peripheral locations. For example, parts of East Lancashire, Tyneside, Liverpool and Tees Valley have large concentrations of interwar terraced housing which is generally of variable quality and lacking many of the amenities that make housing desirable. Often much of this stock is in the private rented sector which has not had the investment to help keep it habitable.



- 3.5 There will be long term value in promoting and enabling home ownership in regeneration areas through housing renewal – for example a variant of Help to Buy for existing stock. The pace of growth of the private rented sector in some weaker markets is not being counterbalanced by new homeownership despite relatively affordable prices.
- 3.6 Pockets of low housing demand are also typified by large numbers of empty homes. Over 40% (83,000) of England’s 204,000 long-term empty homes are in the North where the rate of empty properties is twice that in London and the South East. Despite the best efforts of hard-pressed councils, returning individual empty homes to use is a long and difficult process.
- 3.7 Greater consideration should be given to supporting development when demolition and renewal is the best option to tackle the worst cases of poor-quality housing, particularly in low demand areas. In 2015 government scrapped a raft of guidance encouraging the demolition of older houses as part of regeneration schemes. Demolition was regarded as the last option after all options for refurbishment were exhausted. As a result of the guidance being scrapped, the policy was embedded in housing funding schemes, and demolition of unfit properties significantly reduced year-on-year from approximately 12,000 in 2012 to 8,000 in 2018 across the UK and in the last year there were only 1,793 demolitions across the three Northern regions (see Table 6).
- 3.8 It is essential at times of such affordability pressure to bring investment into places and to make the best use of our existing assets. The lack of mainstream regeneration funding programmes makes this difficult to address, and market values in the North are not robust enough to encourage large scale private investment without the need for significant subsidy.
- 3.9 Evidence from our members suggests that a long-term strategy for housing regeneration is needed - a clear, long term vision and commitment from government to raise the quality and quantity of housing in the North. This would be strongly place focused and shaped by and with residents:
- a) Housing regeneration investment - up front physical and social investment in order to overcome initial barriers and to create the conditions needed to boost market confidence.
  - b) Housing regeneration through planning - focused place-based plans to give confidence to existing housing providers and to new developers to help overcome barriers and meet common, shared objectives.
  - c) Housing regeneration as part of the wider economic landscape - successful regeneration programmes can make a positive impact to the public purse and benefit the wider environment including industry, safety, amenities, infrastructure, warm homes, jobs and employment — to help places and people prosper.
  - d) Quality of housing - quality homes of all tenures needs to be emphasised throughout all stages of planning and design – sub-standard homes are a barrier to accessing affordable housing.

- e) Housing regeneration and public health - tackling poor quality existing housing in the North can have a positive impact on the health sector – related to making people warmer, reducing the risk of cold related illnesses, reducing the risk of injury and accidents, easier maintenance, reducing anxiety and improving mental health.
- f) Promoting and enabling home ownership through renewal and improvement of existing stock – for example a variant of Help to Buy for second hand homes
- g) Empty Homes - Targeted investment to return empty homes to use and for significant improvements in the worst-hit communities.

3.10 In many parts of the North, quality of existing stock is still a vital component in a drive to create the type of housing offer that will support access to good housing at an affordable level. Despite much good practice by individual local housing providers, there remains a need for government support for housing renewal. We would advocate for an exploration of the potential for a sector-wide approach which supports long-term investment in both existing stock and new housing stock, as well as providing a robust approach to affordability. At the same time, there is an immediate and pressing issue for continuity of regeneration funding in Northern areas which have been more reliant on EU regeneration funding than Southern areas.

3.11 This must sit alongside tackling the underlying drivers of productivity, growth and economic inequality. This could be done through a focus on skills, apprenticeships, routes into employment and health and wellbeing. The sector must focus on what we can do in partnership, through Local Enterprise Partnerships, devolved administrations, Local Industrial Strategies and partner organisations. Treating housing as infrastructure, alongside transport and investment in employment would mean that public money spent can be judged on whether it is delivering the right housing solutions in the right places.

3.12 The government commitment to create local industrial strategies offers a chance to address this. The ability of the local industrial strategies – led by Combined Authorities - to set out a coordinated set of actions to deal with the challenges and opportunities their areas face offers huge potential - but housing must be a key partner in this debate.

#### Right to Buy (RTB)

3.13 At a time of housing crisis, we believe the continuation of RTB is distorting local housing markets and worsening the affordability crisis. The sale of council houses has removed many of the more attractive properties from the affordable housing market. When the best social housing in the most popular areas are sold, this leaves those who can't buy increasingly housed in the worst properties and least popular areas. This creates significant difficulties for the social housing supply which shifts demand to the PRS and increases significantly benefit streams to fund the rents of tenants.

3.14 We recognise the aspiration for home ownership, but this is not the only motivating factor in right to buy. Across the three Northern regions the average time a RTB property was kept is 7.6 years. The shortest time a RTB property was kept is 10 days (NW), 18 days (NE) and one week (Y&H).

#### Sales between 1999 and 2018<sup>7</sup>

North East	Total profit made on RTB home sales £135m or £116m in real terms
North West	Total profit made on RTB homes sales £276m or £229m in real terms
Yorkshire & Humber	Total profit made on RTB homes sales £163.2m or £122.1m in real terms

- 3.15 The suspension of the right to buy scheme would halt the loss of good quality social housing while the country is in the grip of a housing crisis. The ending of RTB in Scotland three years ago followed the acceptance that the policy had created more losers than winners, significantly undermining wider efforts to improve social justice. For every new homeowner through RTB, others were left waiting longer for any home at all and the homeless figures soared.
- 3.16 At the very least, there needs to be local discretion over discount rates enabling councils to deal with RTB in the way that works or local areas with severe shortages of social housing. Permitting regional variations in the headline discount rates would boost replacement rates. Councils should be able to factor in the needs of the local area, if sales would undermine their ability to respond to local housing need. Aligning RTB with demand and need (if the affordable need in an area is significant) would mean that RTB could be part of local councils identifying the housing requirement in an area either for sale, rent and affordable and social housing.
- 3.17 The rules governing the scheme have not enabled councils to replace those homes and this has reduced the overall supply of social rented housing. The current level of discount forces local authorities to write off a huge proportion of a property's market value.
- 3.18 The problem of sales receipts being insufficient to cover building costs is prominent in most areas of the North, where average house prices are low. Less than 10% of RTB Receipts for Replacement Homes (known as 1-4-1 Receipts) arise in the three Northern regions, compared to approximately 30% of the sales; over 75% of 141 receipts are focused in London and wider south and east. This suggests policy could offer different approaches in different regions thereby increasing the potential for reinvestment in new supply.

#### Population Change

- 3.19 Population change is an important factor in the demand for housing. The increasing propensity of people to live alone translates into direct increase in the demand for housing. But there are also significant changes within the population with very large increases predicted in older population groups.
- 3.20 In the North East, North West and Yorkshire and Humber the numbers of people aged 65 and over will increase by an average of 18% by 2024. In the North West for

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<sup>7</sup> Source BBC Data Research

example, this equates to an over-65 aged population of over 2 million by 2024 with total specialist housing currently in the region of 4,359. This is extremely significant for housing, care and support policies. Importantly, in the affordability debate, this cohort will have a big impact on the type of homes needed and a potentially growing market for investment in home adaptations, maintenance and improvements.

- 3.21 The vast majority of the over 65s live in general needs housing, in many cases their original family home. Addressing the issue in the older owner occupier market by giving them more choice in downsizing and the specialist housing markets will help release larger and under occupied properties back into the market.
- 3.22 Decent housing that is safe, affordable, warm and adaptable to needs contributes significantly to the health and wellbeing of people who live there; conversely, poor housing has high costs for individuals and also for the public services they may need as a consequence. The costs to the NHS of older people living in poor housing has been estimated by the Building Research Establishment (BRE) at £624 million (in first year of treatment), with the majority of costs arising from the effects of cold and falls.
- 3.23 There is a fundamental challenge for people seeking to move to more appropriate and suitable housing. Currently the under supply of specialist housing and smaller, more adaptable mainstream housing means that people often 'stay put' because there is nothing into which they want to move, or, if there is alternative housing, there are issues of affordability, either to purchase or to fund long term i.e. stable service charge costs.
- 3.24 The question of affordability is increasingly critical given the diverse range of affordable housing types and tenures that will be needed. This means houses, apartments and bungalows as well as specialist facilities for some older people or vulnerable groups with specialist needs. Tenure types include a range of rental options at different levels as well as tenures that allow residents affordable purchase options over time as their circumstances change.

## **Part 4 Conclusion: What needs to change?**

- 4.1 In our call for an approach which supports regional diversity, it should be noted that the North has terrific opportunities to exploit in being able to provide affordable home ownership.
- 4.2 We make the following proposals to the Commission based on evidence gathered working with our member organisations.

### **1. Investment in a National Housing Regeneration Strategy**

The NHC believes there is value in having a clear national strategy to set out overall objectives in terms of the quantity, quality and access to housing. But that this would provide the framework for devolved approaches with the flexibility and capacity to allow localities to develop their own solutions backed by a single place-based resource stream.

A long-term vision and commitment to raising the quality and quantity of housing in the North as part of the wider housing strategy. This would be strongly place-focused and shaped by and with residents. Areas in need of regeneration must have investment in order to overcome barriers to renewal and to create an accessible, affordable housing market as well as the conditions needed to boost market confidence.

### **2. Housing and the wider economic and industrial strategy**

Housing must be part of the wider transport and infrastructure initiatives – at national level through infrastructure planning at a regional and sub-regional level through local industrial strategies to ensure a comprehensive, holistic approach to improving communities across the North.

### **3. Quality and better use of existing housing**

The NHC believes that promoting and enabling home ownership through renewal and improvement of existing stock will provide affordable housing through better use of second-hand homes. This will require targeted investment for significant improvements in the worst-hit communities and to return empty homes to use.

Quality homes of all tenures needs to be emphasised throughout all stages of planning and design – sub-standard homes are a barrier to accessing affordable housing.

### **4. Housing renewal and public health**

By tackling poor quality existing housing in the North, we can have a positive impact on the health sector. Improving the quality of housing can make people warmer - reducing the risk of cold related illnesses; safer - reducing the risk of injury and accidents; and more affordable to maintain - reducing anxiety and improving mental health.

## 5. Land value

Any attempt to address the affordable housing crisis must include measures to change incentives in the land market, and to allow the social sector to secure land at low cost. The ability to assemble land at a lower value means that it will cost less to fund a new programme of affordable house building. It will also ensure that the rise in the value of land, created by the public investment benefits communities with affordable housing and infrastructure.

- 4.3 There are other challenges to be addressed outside of the control of housing providers - the impact of stable employment and wage growth, availability of skilled labour, the availability of capital, role of utility companies, and investment in local transport infrastructure – all of which must be tackled.
- 4.4 There will not be enough supply to achieve affordability without a combination of a programme of public sector development, partnership working, joint ventures and, crucially, better use of existing supply. Additionally, this mix of local flexibility, partnership work, new supply, and best use of existing stock must be applied on a regional basis according to need.

## About us

The Northern Housing Consortium (NHC) is a membership organisation based in the North of England. We are the 'Voice of Housing in the North' working with both local authorities and housing associations to advance the cause of housing. Our membership covers around 90% of all social housing providers in the North. The NHC brings its members together to share ideas, and to represent their interests and to ensure they are heard at a regional and national government level.

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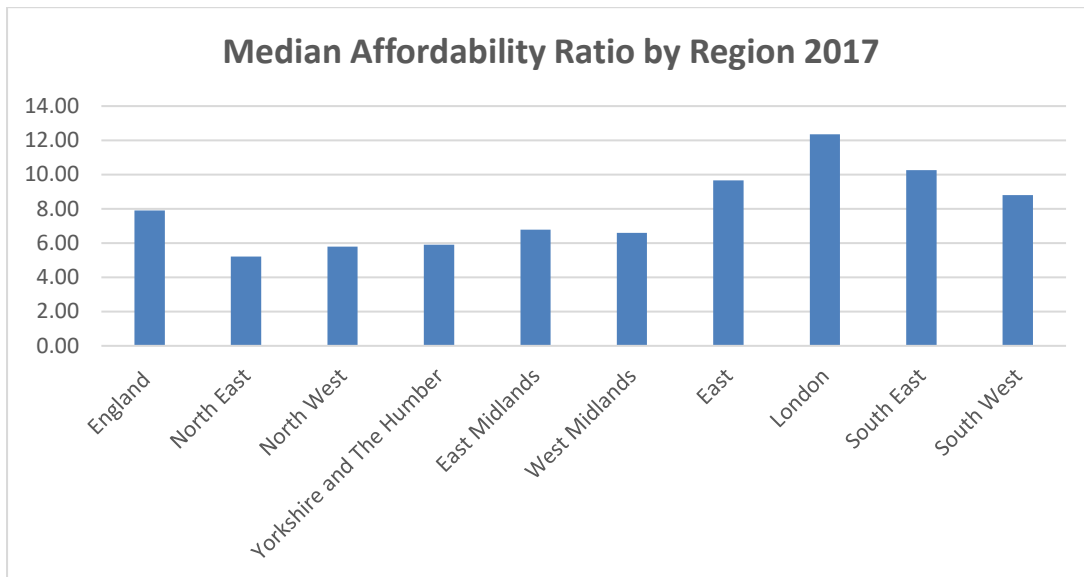
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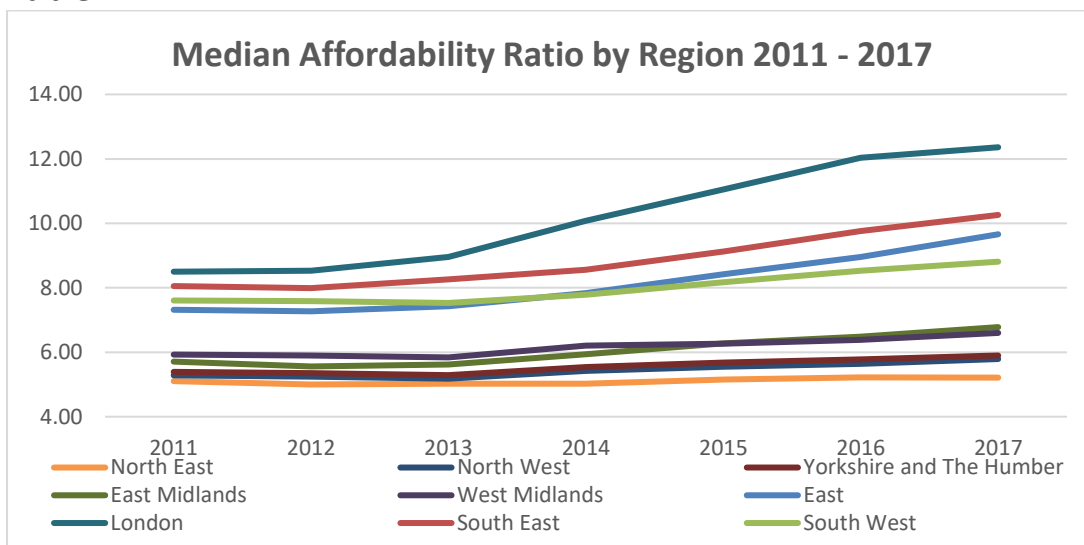
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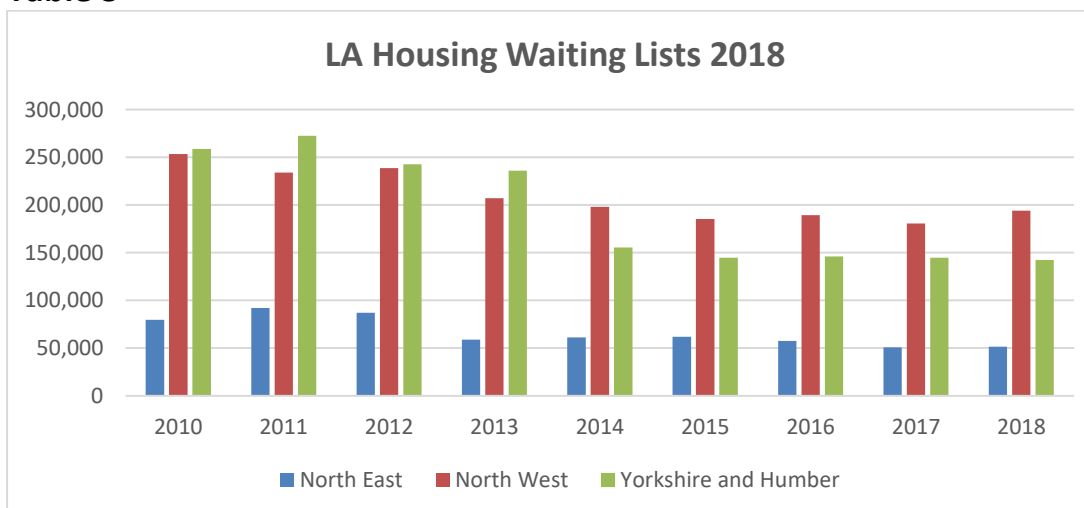
**Table 1**



**Table 2**

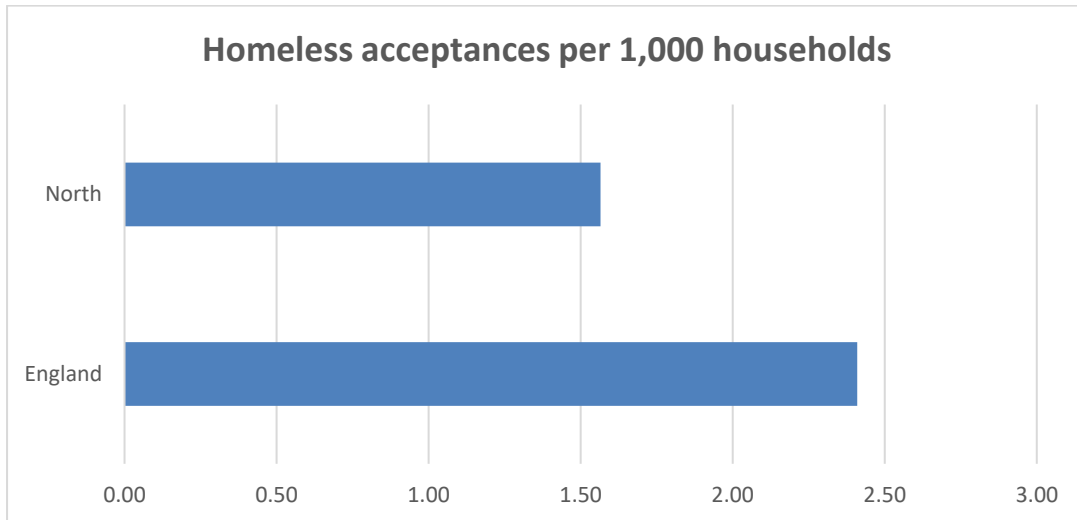


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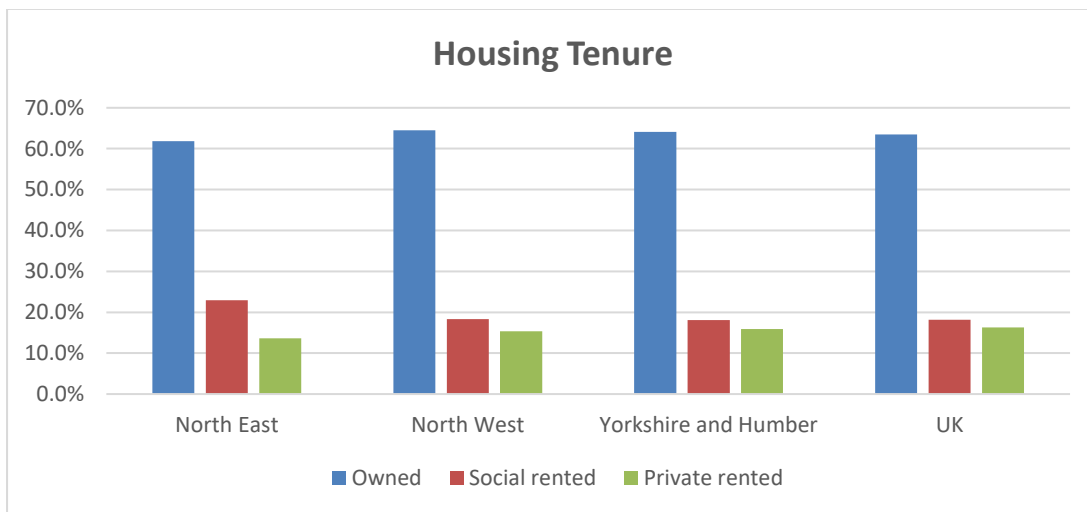




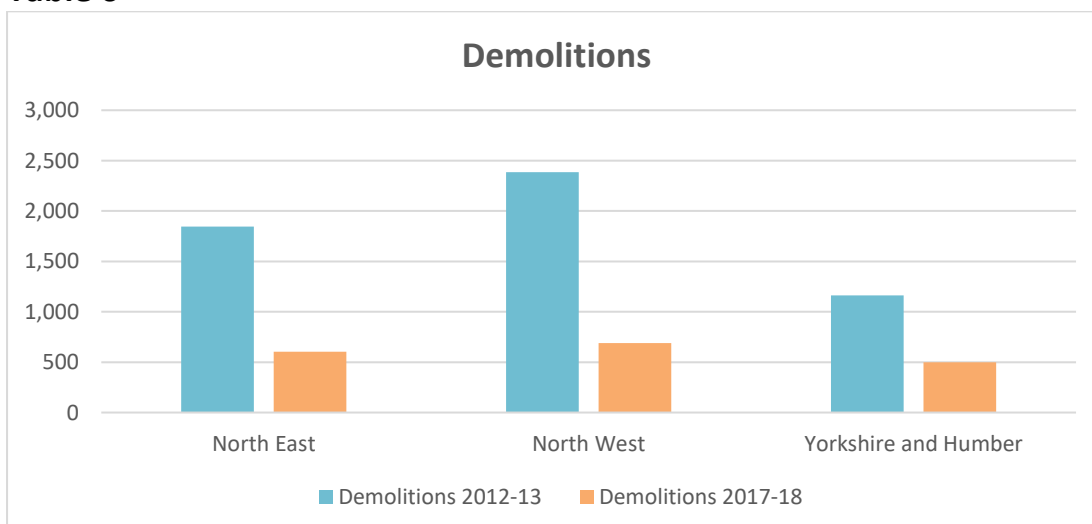
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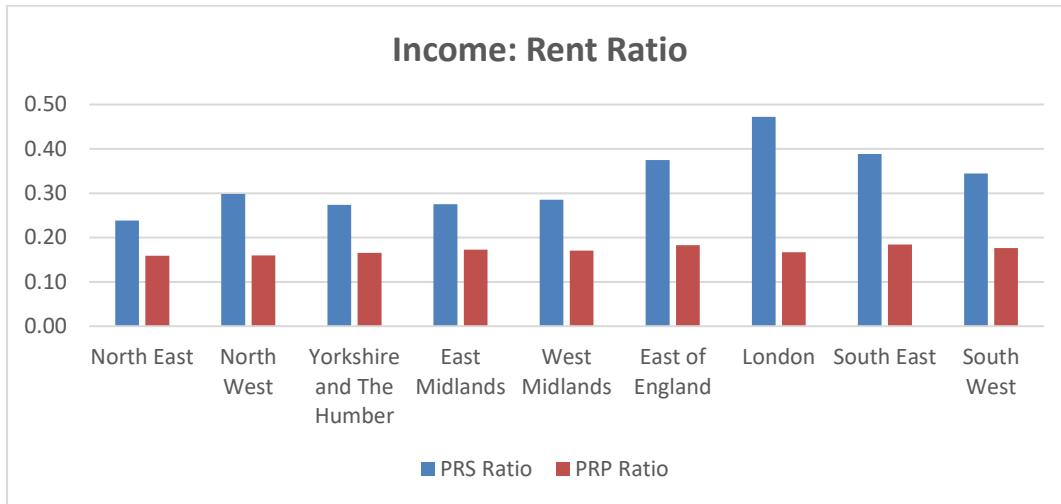
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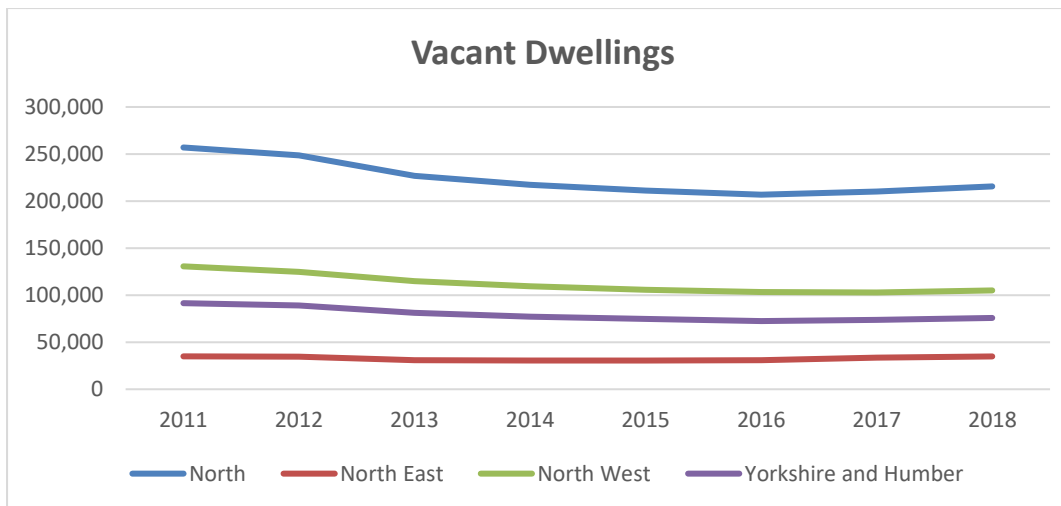
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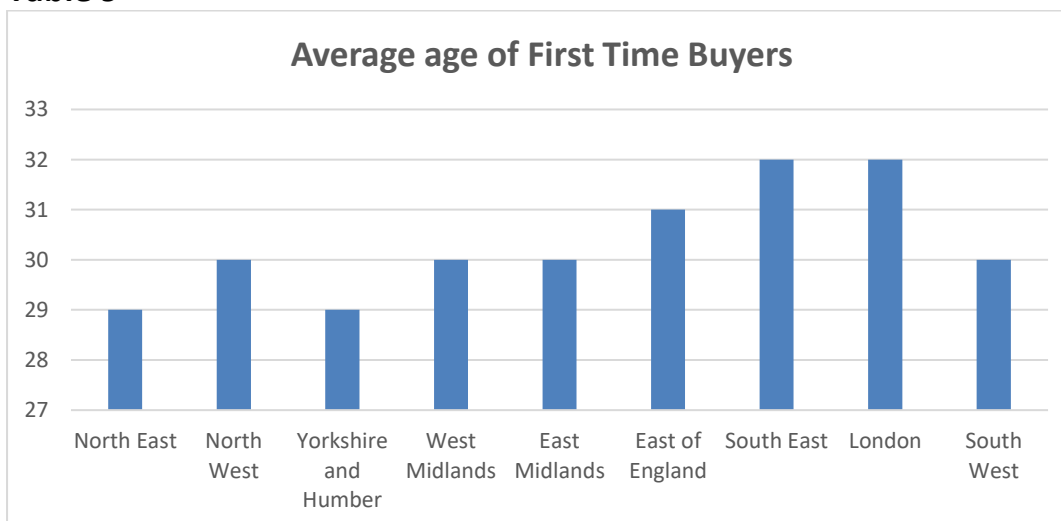
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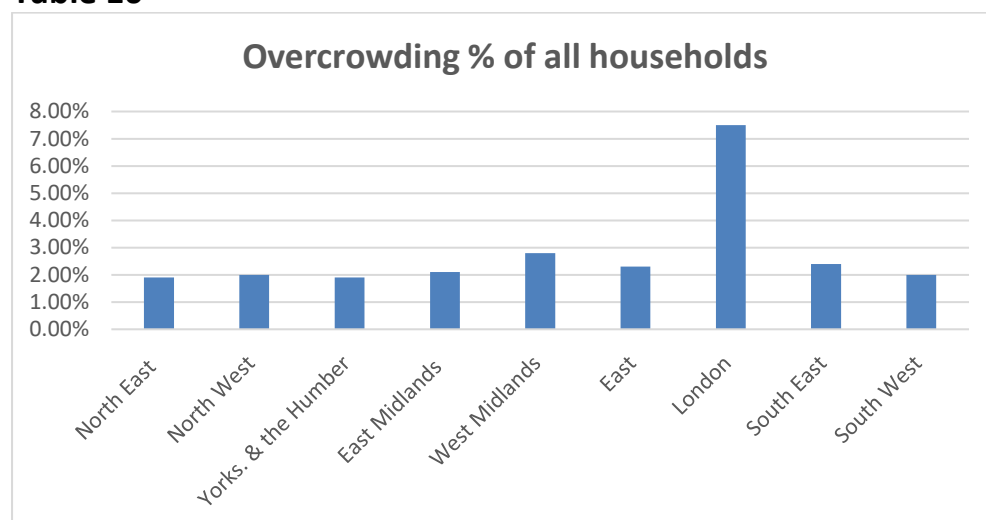


**Table 8**



**Table 9**



**Table 10****Table 11**

Percentage share, by age and region, who live in a household with total household wealth greater than £500,000

<u>Age group</u>	<u>Great Britain Share</u>	<u>Highest Regional/Country Share</u>	<u>Lowest Regional/Country Share</u>
0-15	20%	29% (South East)	13% (Yorkshire and The Humber)
16-24	26%	38% (South East)	18% (Wales)
25-44	17%	23% (South East)	11% (Yorkshire and The Humber)
45-64	43%	57% (South East)	34% (North East)
65+	31%	44% (South East)	21% (North East)

Source: Wealth & Assets Survey – ONS

**Table 12** Individuals living in relative low income by region  
Three-year average for 2014/15 to 2016/17  
Before Housing Costs & After Housing Costs

	Number (millions)		Percentage	
	BHC	AHC	BHC	AHC
North East	0.5	0.6	19%	23%
North West	1.3	1.6	19%	23%
Yorkshire & Humber	1.0	1.2	19%	22%
East Midlands	0.8	1.0	18%	21%
West Midlands	1.1	1.3	19%	24%
East of England	0.8	1.1	14%	19%
London	1.2	2.4	14%	28%
South East	1.1	1.6	12%	18%
South West	0.7	1.0	13%	19%
Wales	0.6	0.7	20%	24%
Scotland	0.9	1.0	16%	19%
Northern Ireland	0.3	0.4	19%	20%
<b>United Kingdom</b>	<b>10.0</b>	<b>13.5</b>	<b>16%</b>	<b>22%</b>

Figure 1 Key to Affordability Ratio

