Policies to Increase Affordable Housing: Experience in England

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Major Policy Approaches

- Continued provision of social rented housing; the role of housing associations
- The use of the planning system to provide land and finance
- Shared ownership, shared equity products in the intermediate market

Provision of Social Rented Housing

- Main providers: Housing Associations using own equity, capital, grants and private finance
- Some 200 developing associations varying from quite small to 50,000 units plus
- Outcome of large scale voluntary transfers from local authorities and new development
- Transfer of management from local authorities to Arms Length Management Organisations (ALMOs) now being given right to borrow.
- Continued provision of generous Housing Benefit to all low income tenants.
- Current output levels around 30,000 pa – stock around 19% of total.

Affordable housing through the planning system

- Use of S106 agreements to provide affordable housing
- Allocation of land
- Funding from developer and ultimately landowner
- Enabling mixed communities

Economic Principles Behind S106

- Planning permission generates an increase in value over and above current or next best use
- That value can be ‘taxed’ to provide for community benefits – including affordable housing
- The greater the constraint the larger the opportunity for planning gain
- On greenfield sites the alternative is agriculture; in urban areas costs may be higher and alternative values also higher so more complex
- If the rules are certain and transparent, land values will fall to take account of the obligation – so the land owner pays
- The site has to remain viable which sets a limit on what can be charged - although always also issues of timing

Process Development: Central Government Guidance

- Central government issues planning policy guidance. Originally PPG now PPS. PPS3 on Housing includes advice on:
- calculating the numbers of homes required and the associated land take required for 15 years ahead taking account of affordability
- suitable densities – including policy on densification
- a brownfield strategy requiring 60% plus of all housing to be on reused land
- determining the proportion of affordable housing in the region and local area
- ensuring mixed and sustainable communities – seen as meaning mixed income and therefore mixed tenure
- design and standards

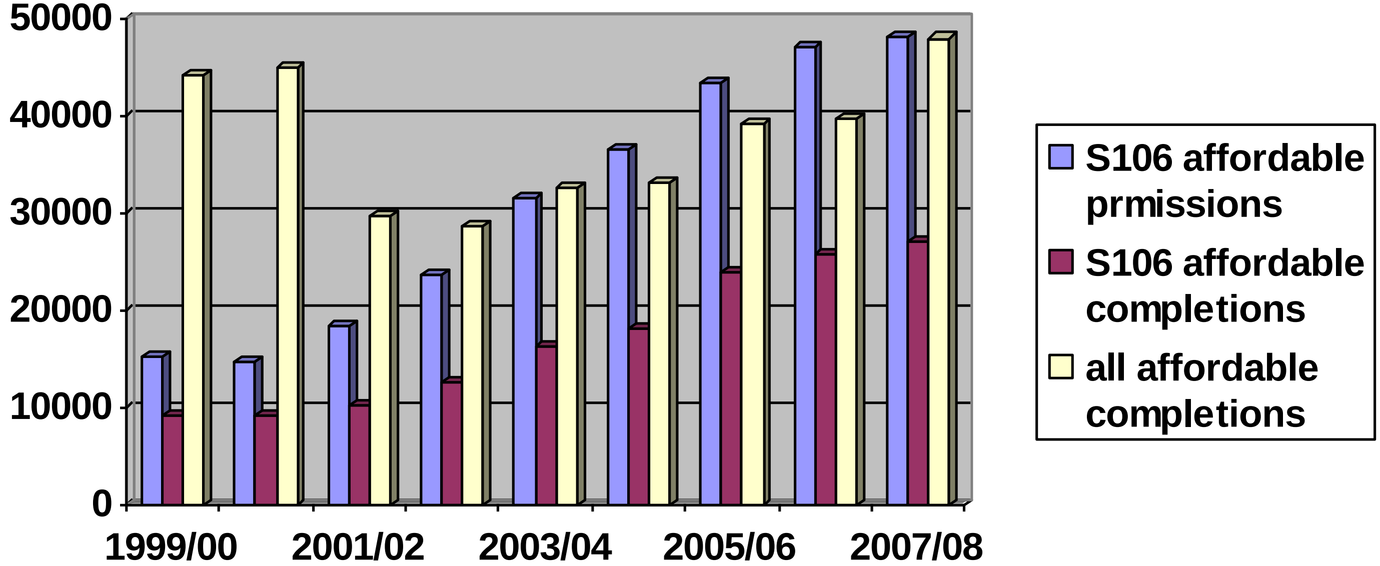
How does the S106 system work?

- Local housing needs assessment leading to statement in the local plan
- Housing developer comes forward with proposal including an allocation for affordable housing – usually a proportion of homes on-site – but can be off site or financial contribution
- Transfers dwellings to a Housing Association to act as landlord/sell low cost home ownership
- Price an element in the negotiation – eg free land/free dwellings or sometimes at significant price
- Central government provides subsidy to cover residual costs to make rents affordable

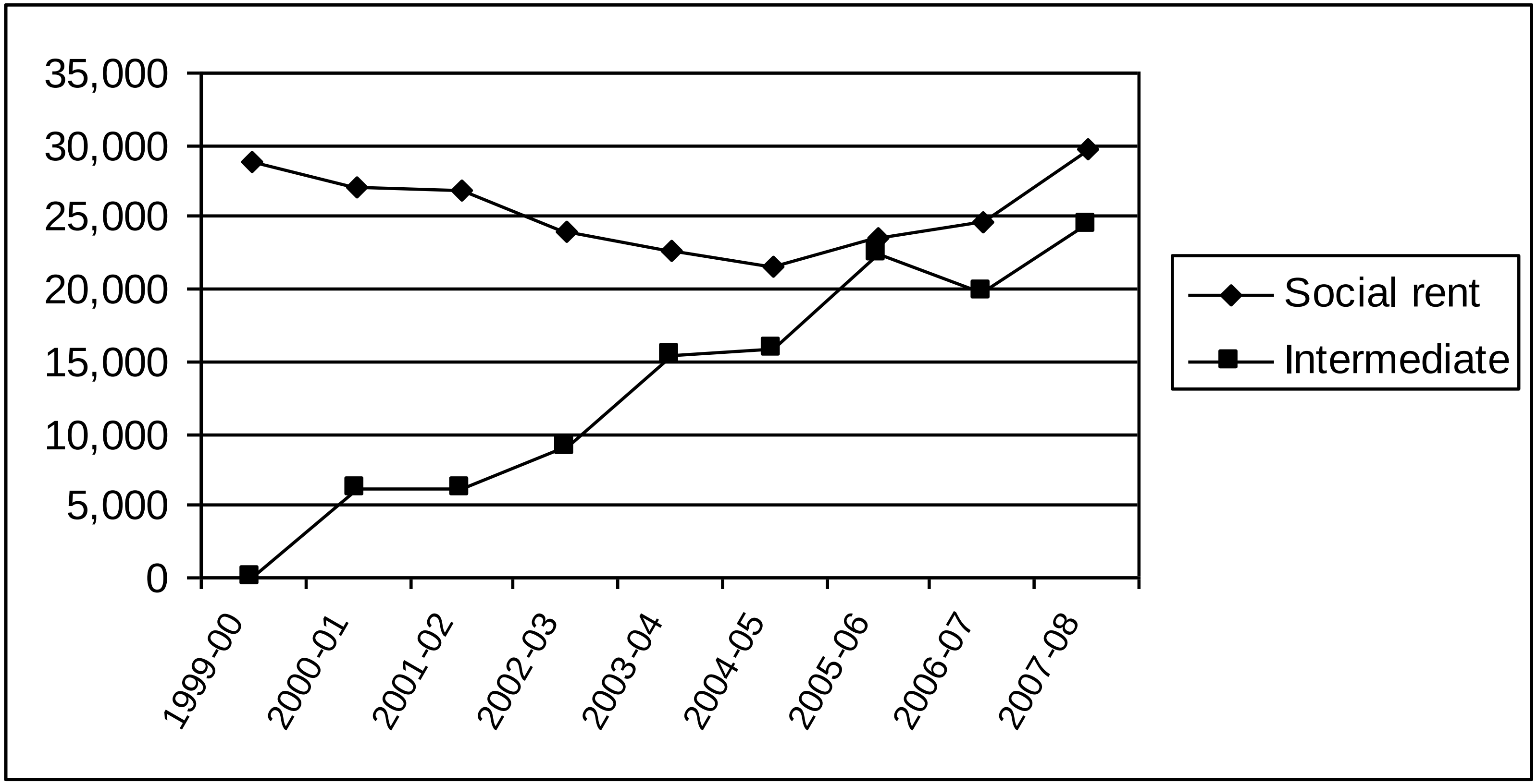
How successful has S106 been?

- Has taken a long time to bed down and concerns about uncertainty about requirements
- Has become the main source of land for affordable housing
- But affordable housing provision tied to the provision of market housing
- Incentives to developers to provide smaller units and units for the intermediate sector
- Has strongly supported the mixed communities agenda
- Has depended on Housing Associations for the delivery of the affordable housing element

S106 as proportion of new affordable homes



Social Rented and Intermediate Housing 1999 - 2008



Why has S106 worked?

- The nationalisation of development rights which mean that government can withhold permission if affordable housing not provided provides the power to require that material considerations are met
- Compare Australia, where principles of planning derive from UK (1948 Act) – but zoning introduced in the 1990s so, although mandatory in eg parts of inner city Sydney, developers have to be incentivised to provide affordable housing through a density bonus
- Compare USA - where in some states, local municipalities may be enabled to require proportions of affordable homes as part of the zoning process - but usually up to the local municipalities and sometimes illegal
- Compare NZ – where legislation is in the process of being repealed although local initiatives
- Compare many other approaches across Europe, almost all locally based

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Why Shared Equity Products?

- Declining affordability and increasing access problems because of
  - Increasing house prices
  - Worsening distribution of income
- Need for key workers to live near their work even in expensive areas
- Potential for shallow subsidy to lever in private equity/ finance
- Increased capacity to manage lifetime expenditures – equity release
- Managing and sharing risk – housing large specific asset; government policy effects
- Maintaining a stake in the investment may improve neighbourhood management

Subsidies to Assist Lower Income Households into Home-Ownership

<u>Right to Buy 1980 -</u>

- Buy own dwelling at a discount
- Right to Acquire some Housing Association (HA) dwelling

<u>Shared Ownership 1980 - 2005</u>

- New HA property
- Purchase partial share – minimum 25%
- Regulated rent (housing benefit) on other element
- Staircase to 100%
- True shared equity for the elderly – buy 70-80%

<u>Homebuy 1999 - 2005</u>

- Find own property
- 25% equity mortgage
- Zero ‘rent’ on that element
- Staircase to 100%
- Shifting emphasis to key workers

Complexity of Schemes : the position in 2009/10

New Build HomeBuy

- New HA properties
- Purchase minimum 25% share
- Rents at up to 2.75% capital value
- Staircase to 100%

Market HomeBuy, My Choice HomeBuy and OwnHome

- Find own property
- MCHB equity loan of between 15% and 50% provided by partnership of HAs
- “Rent” 1.75% of equity loan
- OwnHome 20-40% equity loan + traditional mortgage from Co-operative Bank
- No interest charge for 5 years

Social HomeBuy

- Partial Right to Buy
- Purchase 25% plus, with a % discount
- Rent @ around 2.75% capital value
- Staircase to 100%

HomeBuy Direct

- New build put forward by developers
- Up 30% shared equity loan - ½ from Homes and Communities Agency; ½ from developer
- Only for first-time buyers

New Build HomeBuy

- Basically the new name for shared ownership
- Mainly small units built as part of S106 agreements
- Helps people to get on the property ladder
- Problems of moving up/out especially when family size increases
- Badly hit by the credit crunch because of valuation and financing problems

Market HomeBuy

- A new name for the original Home Buy but with different proportions and different finance
- Equity loan of between 15% and 50% provided by HA (from recycled government grant)
- Traditional mortgage provided by the market
- Enables people to trade off location/size/quality. Favoured by households moving from social renting and people a little further up the income scale
- Popular product even in recession – problem is funding although easier than New Build HomeBuy

HomeBuy Direct

- Post credit crunch product aiming to help first time buyers <u>and</u> developers
- Limits range of dwellings available
- Government has shifted support to this product rather than Market HomeBuy because of the recession
- But still limited to relatively small numbers

The Impact of the Credit Crunch

- House prices fell quite rapidly – year on year perhaps 17% for first-time buyers; less on average – now only 6% down on peak
- Mortgage lending fell by 60% between April 2008 and April 2009
- Particular problems for Shared Ownership – many units being transferred into social renting
- HomeBuy Direct both to clear overhang of properties and to help boost new building
- Impact of land value falls on Section 106
- Longer term prospects may be more positive because of risk sharing as well as affordability benefits

Who for and Why?

- The target group: younger households with expectations of higher incomes or for those who will always only partially own? Sons and daughters of the Right to Buy generation?
- Effect on public expenditure – capacity to recycle capital subsidy and to 'tax' land
- The alternatives: access to good quality social or private renting? Flexible mortgages? Subsidies to first time buyers?
- The financial framework: tax benefits to owner-occupation? Income related benefits in rental housing if incomes fall?
- And are they acceptable to consumers? Consumer attitudes to quite complex products

Longer-Term Requirements

- Products that can provide greater life-time flexibility in both payments and ownership
- Products for which there is a ready second-hand market so people can adjust their housing in relation to their needs
- The capacity to transfer part of the risk and involvement to investors who would benefit from access to residential assets with the potential for lower finance costs

Conclusions: Shared Ownership/Equity

- The private sector will not provide shared equity on its own – too many potential market failures; too little standardisation; too small a scale
- But case for government to help develop the market in shared equity – and to support efficient secondary markets
- Benefits to government from leveraging subsidy and reducing risks of household default; benefits to individuals in sharing the risks of housing market volatility; benefits to finance market from integrating housing into portfolios

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Conclusions

- Most countries face an affordability gap
- Many countries see a strong case for owner-occupation, even given current difficulties
- The majority of schemes help households access homeownership but equally they play an important role in risk sharing
- Shared ownership type schemes have worked well with S106 to increase supply but complex and limited to new build. Shared equity favoured by households and financial institutions
- Have worked in an expanding market; could do so, at higher subsidy cost, in the downturn?