

WHAT IS AFFORDABLE HOUSING? AND WHY DOES IT MATTER?

Why does affordability matter?

The key to ending the housing crisis is not just to build more homes but to make sure many more homes are genuinely affordable to people on low and moderate incomes.

Bringing housing costs under control in relation to incomes is central to tackling poverty and inequality.

How is affordability measured?

The standard measure of housing affordabilityⁱ calculates the proportion of weekly income spent on mortgage or rent.

Taking account of the head of household's and partner's income, home buyers (excluding people who own their homes outright) on average spent 18% of their income on mortgage payments; social renters paid 30% in rent; while private renters paid 41% in rent.

Excluding housing benefit, the average proportion of income spent on rent was 40% for social renters but private renters paid 45%.

It would be reasonable to expect that owners or part-owners who are acquiring an equity stake will pay a higher proportion of their incomes than tenants who only have the right to occupy.

Over the years, different organisations have used different proportions of income as a benchmark to define what is affordable – Shelter and others says households should not spend more than 35% of their income on their housing costsⁱⁱ. Ken Livingstone's first London Plan settled on a figure of 30%, as has Labour Conference.

These averages hide huge variations. People on the lowest incomes pay a higher proportion; there are big regional variations; age and family size are factors and new tenants often pay considerably more than existing tenants.

What are 'affordable homes'?

Strangely, the government's definition of 'affordable homes' (e.g. in its National Planning Policy Frameworkⁱⁱⁱ) is not connected to these measures of affordability based on incomes.

Instead, they define as an 'affordable home' any home that is available at a discount of 20% (or more) below its 'market price' (what it would cost in the private sales or lettings market).

Plainly 80% of a highly inflated market price is still likely to be well out of the reach of most people on low incomes in most parts of the country. It is a wholly inadequate way of looking at the issue.

When the government and providers talk about 'affordable homes' they include a wide range of products - such as discounted market sale, starter homes, shared ownership, rent-to-buy, so-called 'affordable rent' (mainly housing association homes at up to 80% of market rents), as well as social rent.

This approach debases the language, is totally cynical, and confuses everyone.

It allows the government to make big claims about the number of affordable homes they are providing.

It is vital therefore to talk more clearly about homes that are 'genuinely affordable' – and who they are affordable to.

How many affordable homes do we need?

The National Housing Federation estimates that we need to build 340,000 homes per year until 2031^{iv}. But they also say that 145,000 of these new homes must be 'affordable homes', of which at least 90,000 should be for social rent (i.e. Council or Housing Association).

Other commentators come up with different figures, but they are all vastly higher than current production, especially of homes for social rent.

Under the Tories, most financial support has gone to propping up the private market, especially through schemes like *'Help to Buy'*, which will ultimately put prices up and feed developer profits.

Subsidy for new social rent was ended by Cameron/ Osborne, although some new money has been put back in by Theresa May since the Grenfell disaster. Even this small amount of progress is now threatened by the early announcements made by the Johnson/McVey regime. The Chartered Institute of Housing says: *"Currently just 21 per cent of government investment is going to affordable housing"*^v.

It is not just a matter of building more social rent – we must stop losing what we already have.

The Tories have 'rejuvenated' the right to buy with big discounts and they have encouraged social landlords to sell homes on the open market and convert them from social rent to 'affordable rent' when they become empty.

In both cases this generates funds for the new build programme to replace lost government grants.

The Chartered Institute of Housing calculates that we have lost 165,000 social rent homes over the last six years in this way^{vi}.

The net result of austerity and Tory priorities is that there were at least 224,000 fewer new lettings in the seven years 2012/13 to 2018/19 than if the average of the four years previously had been continued^{vii}.

This is the direct cause of the severity of the current housing crisis.

How are 'affordable homes' provided?

Government 'affordable homes' are provided through three main routes:

- a) With support of grants from either *Homes England* or the *London Mayor*. In 2010 the government slashed grant levels, forcing rents up. Cameron then stopped grants for social rent homes altogether, though this was relaxed slightly under Theresa May.
- b) Through 'cross-subsidy' from surpluses made by providers on their other activities, such as profits on market sales or surpluses on their housing management functions. Landlords are now under more pressure to manage and maintain their existing stock better and to undertake fire safety works, so priorities have shifted.
- c) Through 'Section 106' planning-gain agreements between planners and developers which require a proportion of homes to be 'affordable'. Tory changes in planning rules have made it harder for councils to insist on affordable homes, and easier for developers to use the *'viability loophole'* to reduce the number of affordable homes they had to provide, often to zero.

Are any 'affordable homes' genuinely affordable?

Useful though many of the government-defined 'affordable homes' are, it is only the cheapest form of tenure, traditional social rent, that consistently provides genuinely affordable homes to those on low incomes.

Yet this is the tenure that the Government was trying to end until it was forced to think again after the Grenfell fire tragedy.

The Government's rented option – 'affordable rent' – set rents at up to 80% of local market rents. Some providers tried to keep some rents down to

around 60%, others sought to maximise their income.

But these homes are not affordable in any common-sense use of the term and build in a high dependency on housing benefit.

Other programmes like shared ownership only work in high value areas for people at the top of the qualifying income range.

Since Grenfell, a little more money has come back into social housing and councils have been given more freedom to build. But the small grants mean that rents on new homes tend to be significantly higher than traditional social rents.

Some tenants (in and out of work) in the existing social rented stock – the cheapest available – find it hard to pay the rent without significant help from Housing Benefit

The general rise in rents in private and social housing means many more tenants have been made dependent on housing benefit – yet this has been subject to many cuts and freezes in recent years.

The combination of high rents and Housing Benefit cuts push many more people into poverty.

Has housing become less affordable?

Paul Johnson of the Institute of Fiscal Studies ^{viii} has concluded:

“Housing costs have risen far faster for poorer households than for richer ones combined with rising rents and falling mortgage rates, low-earning households have housing costs a good 50 per cent higher than they were 20 years ago, while housing costs for the highest-earning households have not risen at all, on average our housing market has rewarded the better off and punished the poor.”

The affordability crisis does not affect the UK alone, and has deep economic roots. There has been an unprecedented global house price boom, with prices doubling or tripling in many countries. *One explanation lies in financial deregulation across the world.*

The UK has dealt with the issue badly compared to some others like Germany. Over the last 40 years,

house price growth in the UK has been the fastest of the OECD countries and has far outstripped earnings growth.

Compared to other countries, the UK’s system of taxes and government support favours home ownership and landlords rather than renters.

What are Labour’s policies on affordability?

In its April 2018 Housing Green Paper, Labour set out a new housing affordability test to reclaim the idea of genuinely affordable housing, in three ways:

- ‘Social Rent’ homes will be at the centre of Labour’s policy, using the established formula based on local incomes, property values and the size of the property.
- ‘Living Rent’ homes will have rents set at no more than a third of average local household incomes and will be aimed at low-to-middle income working families and key workers.
- ‘Low-cost Ownership’ homes – Labour’s FirstBuy homes – will be discounted to keep mortgage payments at no more than a third of average local household incomes, with the discount locked into the home for future generations. Shared ownership and rent to buy homes will also be available.

In addition to the Green Paper’s commitments, Labour Conference has supported an income-related definition of affordability that rents should not exceed 30% of the net income of households in the lowest quartile of the income distribution.

But there are so many different ‘products’, people’s circumstances vary so much, and one size does not fit all, so a range of definitions are needed.

Labour is committed to building one million genuinely affordable homes over 10 years, a majority of which will be for social rent – topping 100,000 a year by the end of our first five-year term. It will set a longer-term aim for half of all new homes built to be genuinely affordable.

Labour sees a much bigger role for councils in building new affordable homes.

Labour will encourage housing associations to build more genuinely affordable homes but will insist they have social purpose at the core of their activities. It will prohibit 'for profit' housing associations and encourage new community-led housing organisations.

Labour will stem the loss of existing social rent homes by suspending the Right to Buy and ending the conversion of social rent homes to affordable rent. It will also close the 'viability' and other loopholes which developers use to avoid their responsibility to provide affordable homes in new developments.

Labour will remove punitive policies like the 'bedroom tax' and review the level of Local Housing Allowances to enable tenants to afford their homes.

Labour's detailed policies are set out in its special housing manifesto at the 2017 general election^{ix} and in a green paper on social housing published in 2018^x. Conference resolutions have called on the Party to go even further on social rented housing and to end the right to buy.

What does LHG recommend?

Other policies under debate will also help improve affordability.

- The Treasury should aim to keep house prices stable, rising less than incomes.
- Land values should be moderated through planning policy and policies which 'capture' increases in land values for the benefit of the community.
- Private rent increases should be brought under control as part of a package of reforms in the sector.
- By increasing grants for new homes, Labour should embark on the long-term job of boosting spending on 'bricks and mortar', keeping rents at reasonable levels rather than depending on housing benefit.
- Although we look in this briefing at affordability in terms of rent, policy should

also take account of the standards and costs that determine if a home is suitable for a household's needs and well-being - for example space, facilities, location and energy costs.

ⁱ Used in the English Housing Survey. Report: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/774820/2017-18_EHS_Headline_Report.pdf

ⁱⁱ <https://www.31tenconsulting.co.uk/what-is-truly-affordable-housing/>

ⁱⁱⁱ <https://www.gov.uk/government/publications/national-planning-policy-framework--2>

^{iv} <https://www.housing.org.uk/press/press-releases/england-short-of-four-million-homes/>

^v [http://www.cih.org/news-](http://www.cih.org/news-article/display/vpathDCR/templatedata/cih/news-article/data/Home-owners_get_more_government_subsidy_than_social_housing_tenants_or_private_renters_new_report)

[article/display/vpathDCR/templatedata/cih/news-article/data/Home-owners_get_more_government_subsidy_than_social_housing_tenants_or_private_renters_new_report](http://www.cih.org/news-article/display/vpathDCR/templatedata/cih/news-article/data/Home-owners_get_more_government_subsidy_than_social_housing_tenants_or_private_renters_new_report)

^{vi} [http://www.cih.org/news-](http://www.cih.org/news-article/display/vpathDCR/templatedata/cih/news-article/data/More_than_165000_homes_for_social_rent_lost_in_just_six_years_new_analysis_reveals)

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^{vii} <https://humancityinstitute.files.wordpress.com/2019/06/hci-bulletin-no.-17-recent-trends-in-social-landlord-lettings-activity.pdf>

^{viii} <https://www.ifs.org.uk/publications/14210>

^{ix} <https://labour.org.uk/wp-content/uploads/2017/10/Housing-Mini-Manifesto.pdf>

^x <http://labour.org.uk/wp-content/uploads/2018/04/Housing-for-the-Many-final.pdf>

WHAT IS THE LABOUR HOUSING GROUP?

The Labour Housing Group is a lobbying group that is affiliated to the Labour Party and dedicated to the development of a socialist housing policy.

You can contact us at
<http://labourhousing.org/#main-contact-form>

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<http://labourhousing.org/account/join>

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